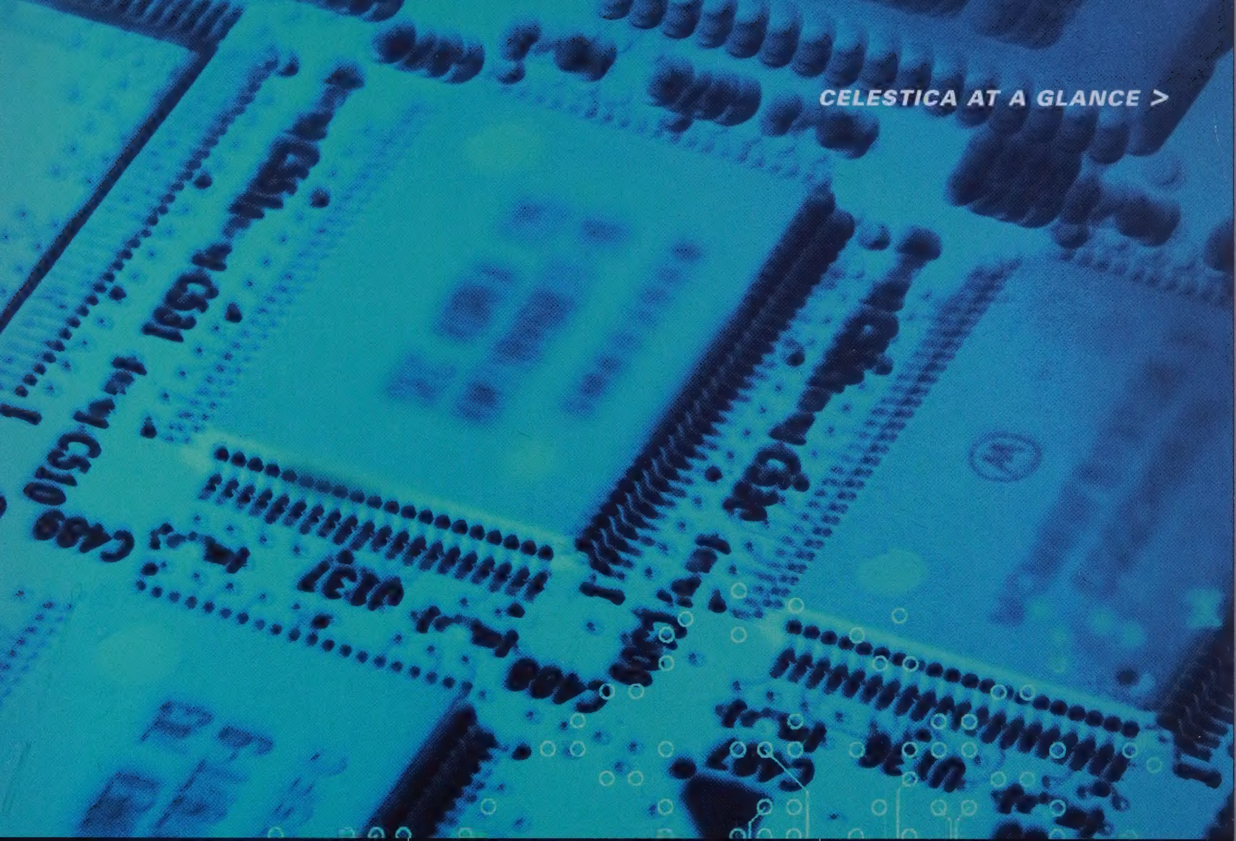
1998 ANNUAL REPORT

CELESTICA™



Corporate Profile

Celestica is a global electronics manufacturing services (EMS) company with recognized leadership in technology, quality and supply chain management. The Company provides manufacturing technology and service solutions to many of the leading original equipment manufacturers (OEMs) in the electronics industry.

Celestica was acquired by an investor group led by Onex Corporation and Celestica management from IBM in October 1996. Since that time, Celestica has undergone a dramatic transformation. It has significantly expanded its global presence, enhanced its customer relationships and broadened its manufacturing and service capabilities through rapid organic growth and strategic acquisitions.

In 1998, Celestica had $3.2 billion in annual revenue, operated 24 facilities throughout North America, Europe and Asia, and was the third largest provider in the high-growth, global EMS industry.

COMPANY EVOLUTION

January 1994:
Incorporated as a wholly-owned subsidiary of IBM

October 1996:
Acquired by Onex Corporation and Celestica management from IBM

December 1996:
Raised $200M in senior subordinated notes

January 1997:
Acquired Design to Distribution, one of the largest independent European EMS providers

July 1997:
Acquired Hewlett-Packard's printed circuit assembly (PCA) facility in Fort Collins, Colorado

August 1997:
Acquired Hewlett-Packard's Unix workstation system assembly facility in Exeter, New Hampshire

October 1997:
Acquired Ascent Power Technology, marking Celestica's 4th 1997 acquisition

February 1998:
Acquired Madge Networks' manufacturing facility in Dublin, Ireland

Acquired Hewlett-Packard's PCA-layout design operation in Fort Collins, Colorado

March 1998:
Acquired Hewlett-Packard's embedded systems design operation in Chelmsford, Massachusetts

April 1998:
Acquired Lucent Technologies' Monterrey, Mexico facility

May 1998:
Acquired Analytic Design in Santa Clara, California, Celestica's first independent Customer Gateway Centre

Moved Irvine, California operation (former Design to Distribution facility) to Foothill Ranch, California

June 1998:
Acquired Silicon Graphics' Chippewa Falls, Wisconsin facility

July 1998:
Completed largest IPO in EMS industry and largest technology IPO in Canada, raising gross proceeds of $414M

Arranged $250M global credit facility

August 1998:
Commenced construction of new building for Fort Collins operations

September 1998:
Acquired Accu-Tronics, a Customer Gateway Centre in Raleigh, North Carolina

October 1998:
Commenced second building expansion in Monterrey, Mexico

November 1998:
Completed Nashville, Tennessee greenfield facility

December 1998:
Completed 8th acquisition of the year and 12th since divestiture – International Manufacturing Services (IMS), broadening the Company's reach to Asia

A COMPANY TRANSFORMED

OCTOBER 1996	DECEMBER 1998
2 FACILITIES, 2 COUNTRIES	**24 FACILITIES, 7 COUNTRIES**
2,500 EMPLOYEES	**14,000 EMPLOYEES**
1 MILLION SQUARE FEET	**3.2 MILLION SQUARE FEET**
IBM 77% OF SALES	**DIVERSIFIED CUSTOMER BASE**
0 ACQUISITIONS	**12 ACQUISITIONS**
LBO	**INVESTMENT GRADE CAPITAL STRUCTURE**

* All numbers in this report are in U.S. dollars unless otherwise noted

FINANCIAL HIGHLIGHTS

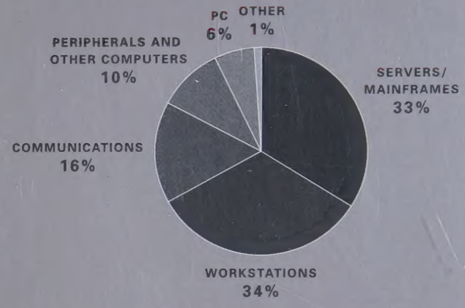
(in millions, except per share amounts)	1997	1998	% Change
Revenue	$ 2,006.6	$ 3,249.2	62%
Gross profit	$ 139.7	$ 230.5	65%
EBIAT*	$ 71.4	$ 100.0	40%
Net loss	$ (6.9)	$ (48.5)	n/a
Adjusted net earnings**	$ 23.3	$ 45.3	94%
Working capital	$ 363.3	$ 356.2	(2)%
Long-term debt	$ 518.9	$ 135.8	(74)%
Shareholders' equity	$ 363.2	$ 859.3	137%
Basic EPS	$ (0.20)	$ (0.94)	n/a
Fully diluted EPS***	$ 0.65	$ 0.84	29%

* Earnings before interest, amortization of intangible assets and income taxes adjusted for other one-time charges

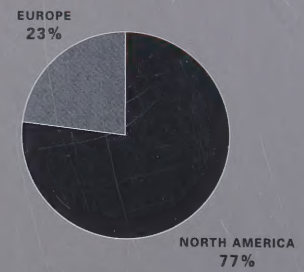
** Net loss adjusted for amortization of intangible assets and other one-time charges, net of related income taxes

*** Fully diluted EPS based on adjusted net earnings

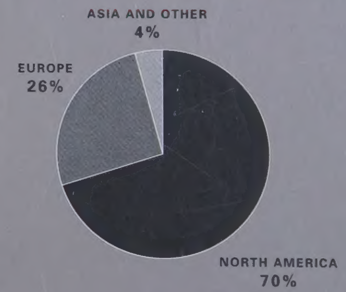
1998 END MARKET DIVERSITY



1998 GLOBAL PRODUCTION



1998 GLOBAL SHIPMENTS



CELESTICA SHARE PRICE PERFORMANCE

Corporate Profile

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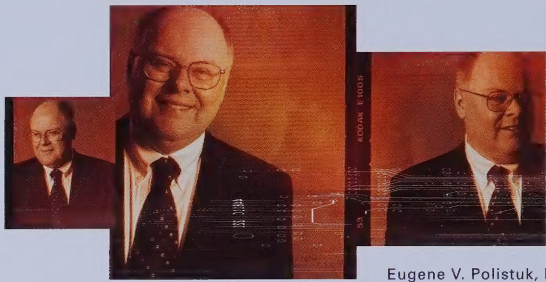
In 1998, Celestica had $3.2 billion in annual revenue, operated 24 facilities throughout North America, Europe and Asia, and was the third largest provider in the high-growth, global EMS industry.



Eugene V. Polistuk, President and Chief Executive Officer

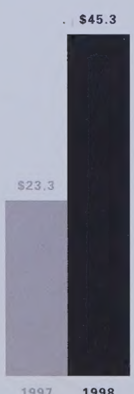
TO OUR SHAREHOLDERS, CUSTOMERS, SUPPLIERS AND EMPLOYEES

Celestica's first year as a public company was remarkable for its tremendous growth and profound change. We delivered solid financial results, made eight acquisitions and completed a very successful cross-border initial public offering – all things that we set out to do and did well. This year's achievements, however, are only the beginning of what is to come as we drive towards our goal of $10 billion in revenue by 2001.

Financial Highlights. Revenue increased 62 percent in 1998 to $3.2 billion, driven by both organic growth and strategic acquisitions. Gross profit totalled $230.5 million compared to $139.7 million in 1997, a 65 percent increase. Celestica's adjusted net earnings, which excludes the tax-effected amortization of intangible assets and other one-time charges, increased by 94 percent. On a fully diluted basis, adjusted net earnings increased to $0.84 per share from $0.65 per share in the previous year. The net loss for 1998 was $48.5 million or $0.94 per share.

We strengthened Celestica's balance sheet considerably, reducing long-term debt from $518.9 million in 1997 to $135.8 million at the end of 1998. Our net debt to capitalization for 1998 was 11 percent versus 53 percent the previous year. We also reduced our cash cycle to 24 days in 1998 from 32 days in 1997 – generating approximately $75 million in cash.

ADJUSTED NET EARNINGS
(in millions)



1998 Milestones. Several operating milestones of the last year stand out in our minds. We made eight acquisitions – for a total of 12 since the beginning of 1997 – that gave Celestica capabilities in key geographies such as Ireland, Mexico, Northern California and Asia. These acquisitions not only expanded our global reach but also enhanced the Company's service offerings and created or strengthened relationships with customers. The year ended with the strategic merger with International Manufacturing Services (IMS) which provided the Company with a strong foothold in Asia and firmly positions Celestica as a global company. IMS has also provided us with complementary markets, new customers and high-capability skills in a low-cost manufacturing environment.

Our initial public offering (IPO) of 23.7 million Subordinate Voting Shares completed in July was a major milestone during 1998. The IPO was the largest in the history of the EMS industry, and the $389 million we raised was used to prepay debt and fund general corporate initiatives related to the continuing growth of Celestica.

We launched a Customer Gateway Centre Strategy that included the acquisitions of Analytic Design and Accu-Tronics. This strategy involves having presence near clusters of leading OEM customers to provide them with design, prototype and new product introduction services. Celestica's engineers at the Gateway Centres work with our customers' engineers in the front-end of a new product before transferring the product to high-volume production in one of our many global facilities. We also expanded Celestica's manufacturing facilities to serve customers better. We set up a facility in Nashville, Tennessee, moved to a new facility in Foothill Ranch,

NET DEBT TO CAPITALIZATION
(percentage)

California and began construction on a new plant in Fort Collins, Colorado that will double our existing space. During 1999, work will be finished on Celestica's Monterrey, Mexico campus that will expand the footprint to approximately 500,000 square feet.

Our Strategy for Growth. The EMS industry has grown from an aggregate revenue of $10 billion in 1988 to more than $90 billion today, a compound annual growth rate of approximately 25 percent. Industry revenue is projected to reach $178 billion by the year 2001 through a powerful combination of growth in the electronics industry, increased outsourcing of electronics manufacturing services and OEM divestitures of vertically integrated manufacturing facilities.

OEMs are motivated to move away from traditional vertical industrial models for many different reasons. Outsourcing allows for a reduction in costs and capital investment. More importantly, it allows OEMs to focus on their core competencies while enabling EMS providers to focus on their strengths – technology and supply chain management to help shorten time to market. Today, OEMs are seeking strategic relationships with EMS providers who can act as virtual, global partners.

These industry dynamics provide a tremendous opportunity for Celestica. The Company is currently the third largest EMS provider in a highly fragmented but high-growth industry. Our strengths and strategies position us very well to exploit the dramatic growth in EMS by playing a dominant role in the industry's inevitable consolidation.

At its core, Celestica's strategy for continuing growth is to partner with leading OEMs. We seek to enhance our leadership position in the

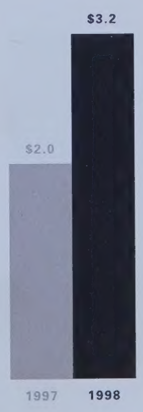
EMS INDUSTRY REVENUE
(in billions)

areas that are most fundamentally important to meeting and anticipating the needs of these customers. Specifically, this requires that we leverage Celestica's industry leadership in technology, quality and supply chain management in order to deliver competitive advantage to our customers. Celestica's modern plants, leading technological capabilities, sophisticated IT network and depth of engineering skills make this possible.

The best complement to superior services is to provide them in a timely and cost-effective manner. Our leadership in global supply chain management allows Celestica to ramp up operations rapidly to meet customer needs, balance product demand fluctuations and distribute products worldwide to end customers. In fact, we regularly work closely with suppliers to influence component design and packaging for the benefit of OEM customers. Celestica's achievements in all these areas have been recognized with many customer and industry awards.

Another key component of our strategy is to broaden our service offerings. In addition to our production expertise in higher-end and more complex products, Celestica can now manufacture a broader spectrum of products to support the full product lines of leading OEMs, including lower-cost products. We have also acquired additional capabilities in prototyping and PCA design, embedded system design and full system assembly and repair services. Celestica will continue to broaden all its service offerings in order to keep bringing more competitive value to its customers. Additionally, we will expand our network of Customer Gateway Centres. At the end of 1998, we had six Gateway Centres on-line and plan to double that number during the next two years.

REVENUE
(in billions)



Our commitment to our customers also involves growing along with them. During the last two years, Celestica has expanded from two facilities in North America to 24 facilities located in the United States, Canada, Mexico, the United Kingdom, Ireland, China, Hong Kong and Thailand. Celestica will continue to build its support for global customers in major international markets.

During the rapid expansion of the past two years, we have sought to extend Celestica's leadership to internal practices. We employ a comprehensive integration strategy that includes establishing a common culture at all locations with broad-based workforce participation. As well, at all our operations we present a single marketing 'face' to customers, deploy common information technology platforms, leverage global procurement and transfer best practices.

We believe that our highly skilled workforce and unique culture provide us with a distinct competitive advantage. The Company's workforce is among the most sophisticated and experienced in the EMS industry, with more than 1,100 engineers and a very seasoned management team. All of our employees work in a value-based and team-oriented culture that is driven by the desire to exceed customer expectations continually. Most employees have a portion of their compensation tied directly to the achievement of financial and customer satisfaction targets, and many employees are also shareholders in the Company.

Looking forward. We believe that Celestica's leadership in all facets of its business – technology, quality, supply chain management and human resource practices – has positioned the Company for significant growth.

GROSS PROFIT
(in millions)

We expect that the pace of acquisitions will be continued in 1999, with a focus on expansion into Central Europe and Brazil. We will establish new Customer Gateway Centres in proximity to key OEMs and pursue opportunities to acquire strategic OEM assets. In every case, a potential acquisition must not only complement the Company's business but also deliver accretive earnings.

We will drive Celestica's organic growth by continually improving our selling proposition to customers. As we grow our revenue, we are also very intent on increasing our return on invested capital and on expanding our operating margins by managing our costs aggressively, improving our worldwide capacity utilization, and leveraging our strengths in supply chain management. All of these initiatives will help us to expand the Company's margins and propel Celestica to new levels of profitability on the increased revenue we anticipate.

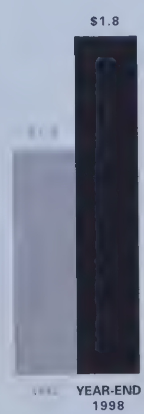
Nineteen ninety-eight was a remarkable year for Celestica; 1999 promises to be another year of exciting growth and expansion. We are confident that we have the right people, the right recipe and the right infrastructure in place to make significant progress towards our strategic goal of $10 billion in revenue by 2001.

I would like to thank all those stakeholders who made 1998 a success and look forward to sharing future successes with you.

Eugene V. Polistuk,

President and Chief Executive Officer

MARKET CAPITALIZATION
(in billions)



Our Growth Strategy

Celestica's focused strategy for profitable growth will make the Company the electronics manufacturing services partner of choice for the world's pre-eminent OEMs. We will develop strategic relationships with these leading customers. We will leverage our leadership in technology, quality and supply chain management. We will continue to broaden our service offerings.

Our global expansion will take us to new markets and we will selectively make acquisitions that are accretive to our business. We will increase our operating margins while we aggressively grow our revenue. All these elements will carry Celestica to its goal of $10 billion in revenue by 2001 and deliver the greatest value for our customers, shareholders and employees.

WORKING WITH LEADERS

Celestica targets customer relationships that offer profitable growth as well as diversification by customer type and end market. We provide our services to a broad variety of leading OEMs' end products including: servers, workstations and personal computers, multimedia peripheral devices, photocopiers and printers, mass storage, wireless infrastructure and handsets, optoelectronics, routers, hubs and switches, and medical equipment.

Celestica's customer portfolio, has broadened and diversified continuously since our divestiture from IBM in 1996. In that year, our top five customers represented approximately 91 percent of Celestica's total revenue. IBM alone accounted for 77 percent. Today, we serve more than 50 of the leading electronics OEMs. Our top five customers form 72 percent of our total, with IBM representing 11 percent and Hewlett-Packard and Sun Microsystems each representing more than 10 percent of our total revenue.

As Celestica strives towards its target of $10 billion in revenue, we will continue to grow and diversify the customers and end markets we serve. A near-term goal, for example, is to expand Celestica's participation in the communications industry. This is a marketplace in which outsourcing requirements are growing rapidly and customer requirements are directly aligned with the Company's capabilities and offerings.

Over the longer term, Celestica's strong OEM heritage and extensive capabilities will help us strengthen our strategic partnerships with leading OEM customers. As our OEM partners extend their reach to markets globally, Celestica will also be there providing them with competitive advantage.


Hewlett-Packard
Sun Microsystems
Cisco Systems
IBM
Nortel
Dell
ICL
Silicon Graphics
Sequent
EMC Corporation

LEVERAGING INTELLECTUAL CAPITAL

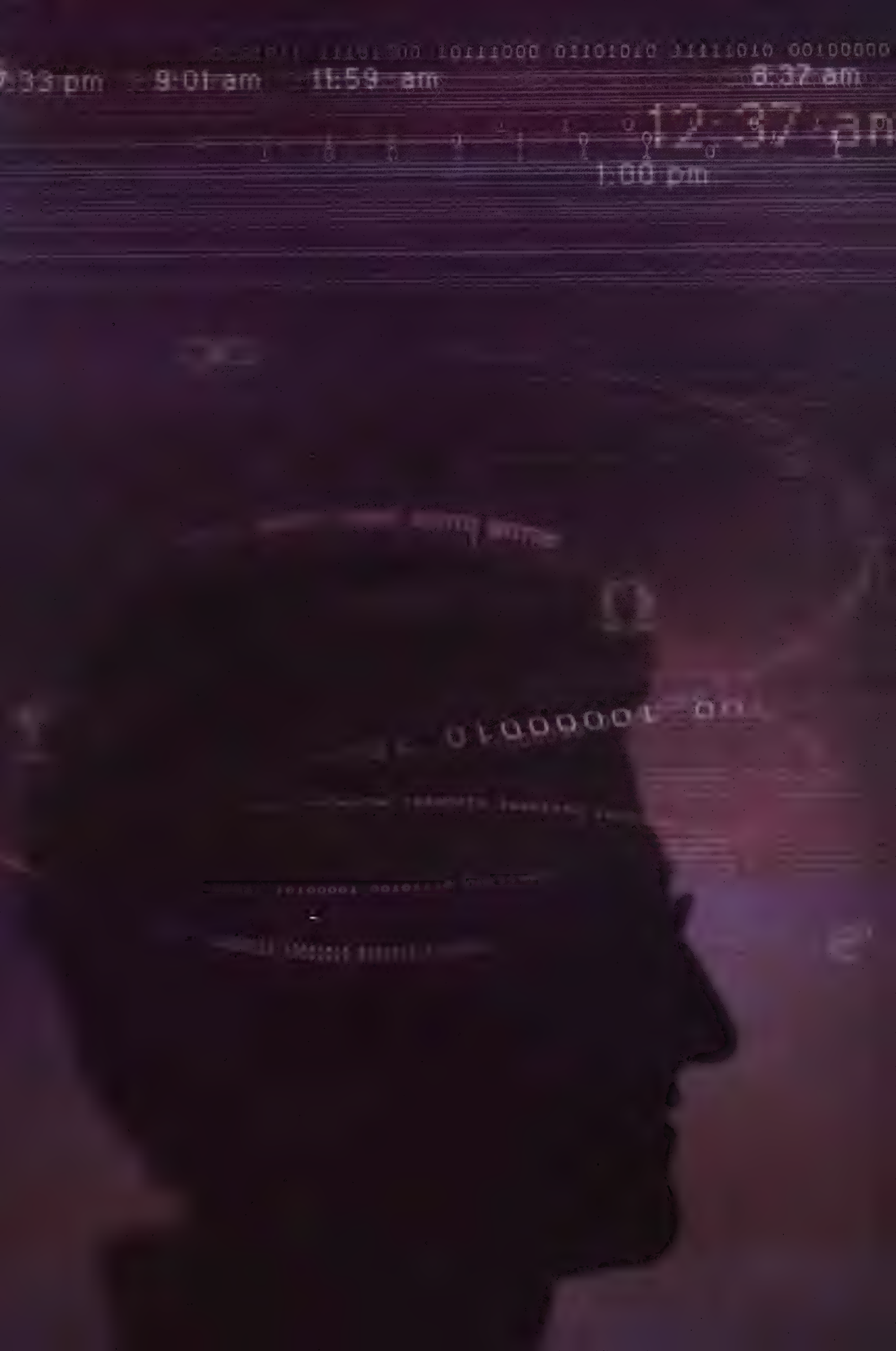
We are a knowledge-based company committed to maintaining our leadership position in the key areas of technology, quality, supply chain management and ultimately our human resources.

Our skilled and experienced team which includes 1,100 engineers, encompassing 280 designers and 200 test engineers, together with Celestica's modern plants and leading technological capabilities, enable the Company to produce highly complex and sophisticated products. The Company is recognized worldwide for its leading position in technology.

Our commitment to quality in all aspects of our business has been an integral part of Celestica's culture. The Company's quality management program focuses on continual process improvement and achieving the highest levels of customer satisfaction.

Celestica's optimization of the global supply chain includes managing a sophisticated supplier base, through component selection and cost-effective procurement, to inventory management, quick manufacturing cycle time and rapid distribution. The Company can rapidly ramp up operations to meet customer needs, flexibly shift capacity in response to product demand fluctuations and effectively distribute products directly to end customers. We deploy numerous progressive techniques and a sophisticated information technology network to create the most flexible, efficient and effective supply chain possible.

Celestica's leadership has been recognized through numerous industry and customer awards as well as through high customer satisfaction survey results. More importantly, our OEM partners have confirmed Celestica's excellence by expanding their relationships with us.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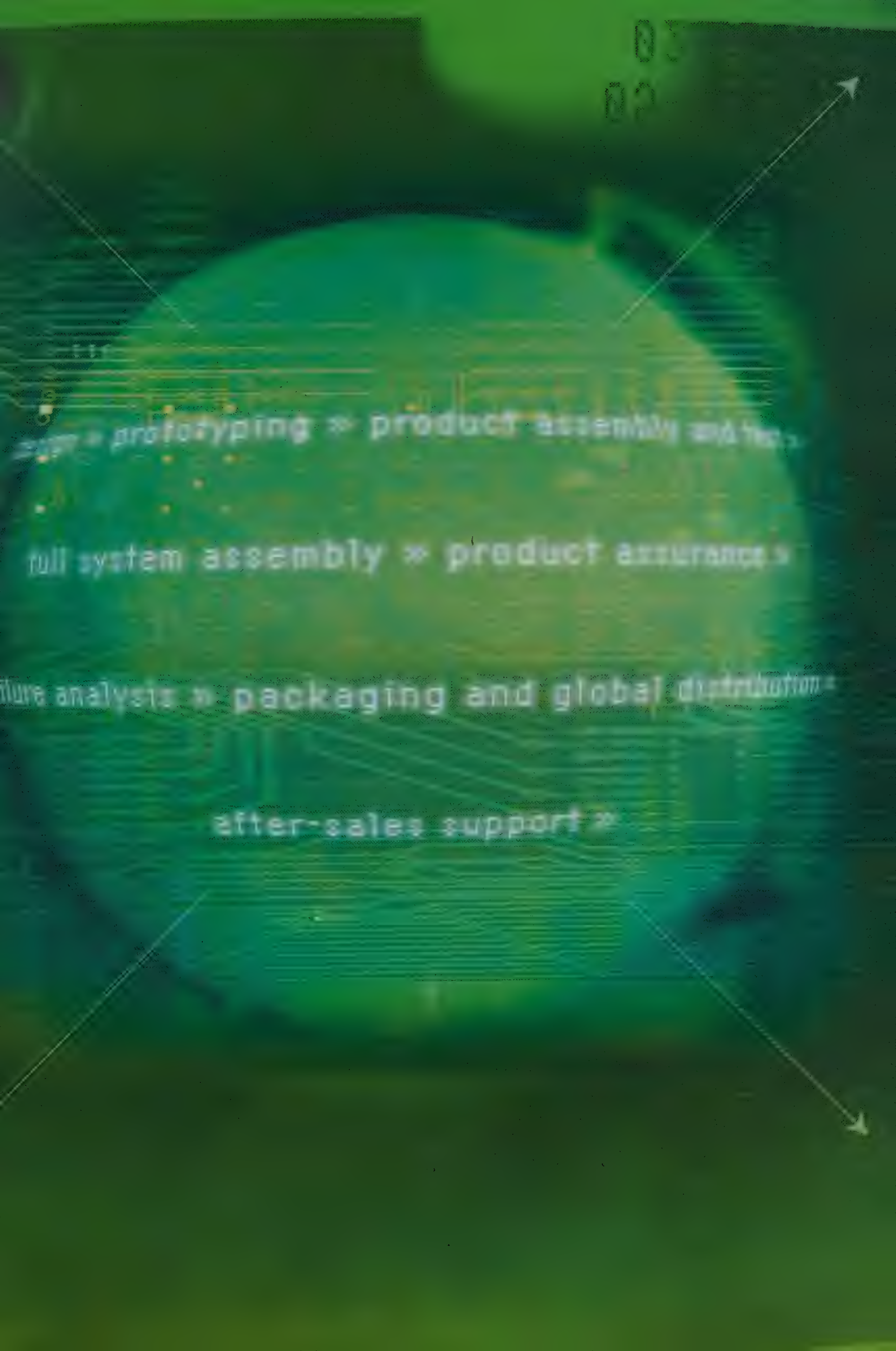
EXTENDING OUR CAPABILITIES

Celestica continuously expands its service offerings and capabilities globally in anticipation of customer requirements.

The Company provides its customers with one of the most expansive service offerings in the industry.

Design – Celestica's extensive design capabilities include the development of radio frequency products, full systems, embedded computer products, asics and PCAs. **Prototyping** – At Celestica's Customer Gateway Centres, OEM partners work collaboratively with our engineers to pass products seamlessly through the prototyping stage in preparation for larger scale manufacturing. **Product Assembly and Test** – We have made significant investments in new process and test technologies which help customers to improve product quality and performance, and reduce costs. **Full System Assembly** – Celestica provides an array of services that includes sophisticated logistics and procurement, build-to-order assembly and functional testing. **Product Assurance** – Our team performs product life testing and full circuit characterization to ensure designs meet or exceed specifications. **Failure Analysis** – By testing under various environmental extremes such as temperature, humidity and rate of use, potential failures are discovered before products are shipped. **Global Distribution** – Our sophisticated, integrated distribution network allows Celestica to perform global order fulfillment, with shipment directly to OEMs' own customers. **After-Sales Support** – A wide range of after-sales support services, including field failure analysis, product upgrades, repair and engineering change management are available to our customers.


prototyping » product assembly and
full system assembly » product assurance »
analysis » packaging and global distribution »
after-sales support »

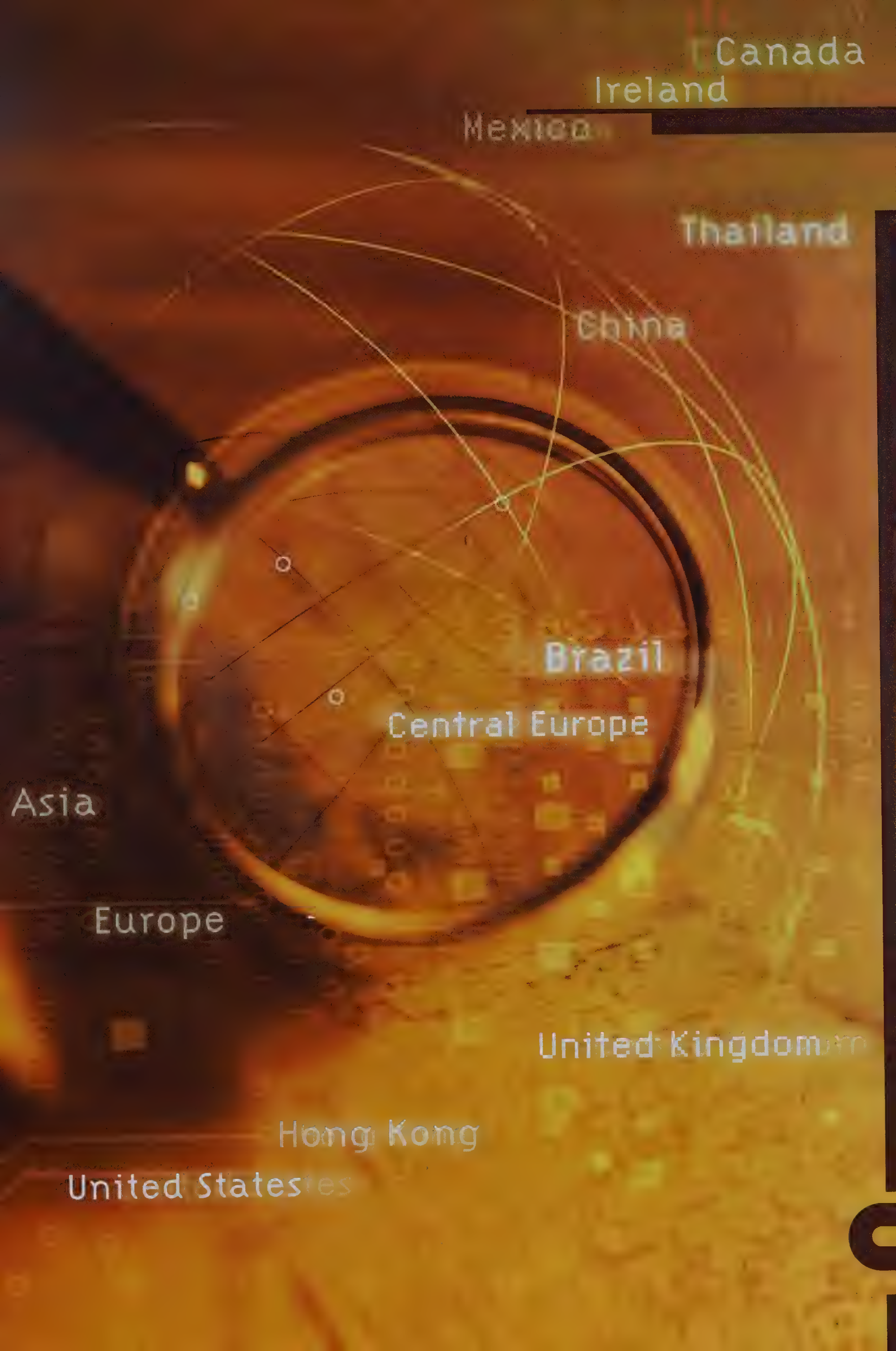
FOCUSED GLOBAL EXPANSION

One of Celestica's key strategic objectives is to provide customers with cost-effective and timely delivery of quality products and services in major global markets. During the last two years, Celestica has expanded from two facilities in North America to 24 in the United States, Canada, Mexico, the United Kingdom, Ireland, China, Hong Kong and Thailand.

Celestica's global network of facilities enables us to simplify and shorten an OEM's supply chain; this can significantly reduce the time it takes to simultaneously bring products to key markets. In addition, our facilities in regions such as Mexico and Asia complement our offerings with lower-cost manufacturing solutions that may be appropriate for price-sensitive applications.

Although we are a global company today, with coverage in most of the major areas of the world, we will continue to target other strategic areas of the globe. Of particular interest to the Company are selected regions of Central Europe that will provide us with further low-cost manufacturing. Celestica will also target Brazil, which offers new opportunities in the communications market. Additionally, there will be selected expansion in Asia and Europe driven by customer demand.

Celestica will continue to add Customer Gateway Centres in targeted locations around the world near clusters of key customers. This will enable closer working ties between the Company and OEMs in the critical stages of a new product's development. When the product is ready to be launched, Celestica's Gateway Centres will transfer the production to one of our larger global manufacturing facilities.


Canada
Ireland
Mexico
Thailand
China
Brazil
Central Europe
Asia
Europe
United Kingdom
Hong Kong
United States

ACQUIRING OPPORTUNITIES

Celestica has participated aggressively in industry consolidation which has been driven primarily by the continuing trend among leading OEMs to outsource large volume programs to leading EMS providers. The Company has completed 12 acquisitions since the beginning of 1997 and will continue to seek other strategic opportunities.

Our acquisitions to date have included EMS providers as well as assets of our OEM partners. Our OEM partners have preferred to provide opportunities to companies such as Celestica because we possess the capital, management expertise, technology and advanced systems required to manage the assets effectively. We continue to manufacture existing OEM product lines in the acquired facilities to enable our partners to seamlessly support their customers and markets. Our success in managing acquired assets has resulted in ongoing and mutually beneficial relationships with all the OEMs who originally owned the assets.

To enhance the value of our acquisitions, we have implemented a comprehensive integration strategy and sought to use any excess capacity. At each of our locations, we have established a common culture with broad-based workforce participation. We present a single marketing face to customers worldwide, deploy common information technology platforms, leverage global procurement and transfer best practices among operations worldwide.

Celestica will continue its pace of acquisitions in 1999 in order to expand its global presence, further develop strategic relationships with customers, broaden service offerings, expand capacity and diversify into new market sectors. New opportunities will be evaluated on the basis of these criteria along with the ability to increase shareholder value.

통합
adquisición
買収
收购
integration
acquisition

EXPANDING MARGINS

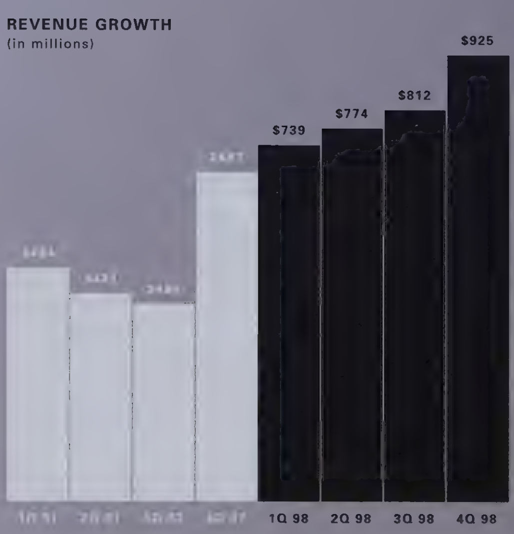
Celestica is not only committed to grow its earnings through revenue growth but also through operating margin expansion. Margin expansion together with Celestica's excellent performance in asset turnover will ensure strong return on invested capital for the Company. Celestica has implemented a company-wide program to increase margins while maximizing asset turnover. The initiatives in this program have significantly expanded margins at the Company's Canadian and European facilities and are expected to achieve similar success at Celestica's other facilities.

Under the program, Celestica takes advantage of the significant operating leverage within its network of facilities by increasing capacity utilization at all plants, particularly those recently acquired. To complement this initiative, Celestica leverages its well-developed supply chain management expertise which includes its corporate procurement scale and inventory management capabilities. Manufacturing efficiencies likewise result from optimizing the allocation of production on a global basis, based on cost and technological complexities. Additionally, the Company deploys a high-performance cost reduction and productivity initiative which has been very successful to date.

Our employees are driving much of the change because our culture supports participation. Many of our employees are shareholders of the Company, and a portion of most employees' compensation is tied to profit improvement – one of the strongest incentives for change and margin enhancement. Celestica's work environment is team and results oriented, focused on continually exceeding customer expectations and increasing shareholder value.

We have accomplished a great deal in the past two years, positioning Celestica as a global EMS provider. Strategic investments have been made to create the platform necessary for industry leadership. Our financial results are commensurate with a company in transformation. Celestica's infrastructure is now largely in place and our strategies for financial leadership are aggressively being deployed to leverage these investments and exploit market opportunities going forward.

Anthony P. Puppi, Chief Financial Officer



UNAUDITED QUARTERLY FINANCIAL INFORMATION

1998 (in millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenue	$ 738.7	$ 773.6	$ 811.6	$ 925.3	$ 3,249.2
EBIAT*	$ 21.3	$ 21.2	$ 24.9	$ 32.6	$ 100.0
%	2.9%	2.7%	3.1%	3.5%	3.1%
Net earnings (loss)	$ (31.8)	$ (19.2)	$ 6.3	$ (3.8)	$ (48.5)
Adjusted net earnings**	$ 5.8	$ 4.6	$ 16.2	$ 18.7	$ 45.3
Net invested capital	$ 461.8	$ 495.0	$ 505.8	$ 514.1	$ 491.4
Weighted average # of shares outstanding (M)					
– basic	36.6	37.1	64.8	67.0	51.5
– fully diluted	39.8	40.7	68.8	71.1	55.2
Basic earnings (loss) per share	$ (0.87)	$ (0.52)	$ 0.10	$ (0.06)	$ (0.94)
Adjusted EPS – fully diluted	$ 0.15	$ 0.12	$ 0.24	$ 0.27	$ 0.84
ROIC***	18.4%	17.1%	19.7%	25.4%	20.4%

1997 (in millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenue	$ 483.6	$ 430.7	$ 409.1	$ 683.2	$ 2,006.6
EBIAT*	$ 11.6	$ 11.9	$ 17.6	$ 30.3	$ 71.4
%	2.4%	2.8%	4.3%	4.4%	3.6%
Net earnings (loss)	$ (0.5)	$ (9.8)	$ 1.4	$ 2.0	$ (6.9)
Adjusted net earnings**	$ 2.6	$ 2.2	$ 6.2	$ 12.3	$ 23.3
Net invested capital	$ 301.3	$ 329.2	$ 341.2	$ 391.3	$ 344.8
Weighted average # of shares outstanding (M)					
– basic	31.0	35.8	35.9	36.3	34.8
– fully diluted	31.1	38.4	38.5	39.0	36.8
Basic earnings (loss) per share	$ (0.02)	$ (0.27)	$ 0.04	$ 0.05	$ (0.20)
Adjusted EPS – fully diluted	$ 0.09	$ 0.06	$ 0.16	$ 0.32	$ 0.65
ROIC***	15.4%	14.5%	20.6%	31.0%	20.7%

* Earnings before interest, amortization of intangible assets and income taxes adjusted for other one-time charges

** Net earnings (loss) adjusted for amortization of intangible assets and other one-time charges, net of related income taxes

*** ROIC equivalent to EBIAT/Average net invested capital

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Consolidated Financial Statements.

GENERAL

Celestica is a leading provider of electronics manufacturing services to OEMs worldwide and is the third largest EMS provider in the world with 1998 revenue of $3.2 billion. Celestica provides a wide variety of products and services to its customers, including the high-volume manufacture of complex PCAs and the full system assembly of final products. In addition, the Company is a leading provider of design, repair and engineering services, supply chain management and power products.

Historically, Celestica's business consisted of three segments – EMS, memory and power. Over the last two years, Celestica has refined its strategy to focus on its EMS business. Memory and power represented less than 10% of Celestica's total revenue in 1998.

During 1998, Celestica operated 19 facilities across North America and Europe. The acquisition of IMS in December 1998 provided the Company with an immediate and major presence in Asia, increasing the number of facilities to 24.

In July 1998, Celestica completed its initial public offering and issued 23.7 million shares for net proceeds of $389 million. The net proceeds were used to prepay a significant portion of Celestica's debt, providing the Company with additional flexibility to support its growth strategy and decreasing its total net debt to capitalization ratio from 53% to 11% year over year.

Celestica prepares its financial statements in accordance with accounting principles which are generally accepted in Canada and which, in all material respects, conform to accounting principles generally accepted in the United States except as disclosed in Note 24 to the Consolidated Financial Statements.

ACQUISITIONS

A significant portion of Celestica's growth has been generated by the strengthening of its customer relationships and increases in the breadth of its service offerings through facility acquisitions completed in 1997 and 1998.

In February 1998, Celestica acquired a manufacturing facility in Ireland from Madge Networks, a manufacturer of token ring communication products, asynchronous transfer mode products and related derivative products, for a total purchase price of $23.1 million. The acquisition provided Celestica with a facility in a key geographic area and strengthened its relationship with Madge Networks.

In June 1998, Celestica acquired certain assets of Silicon Graphics' ("SGI") manufacturing facility in Chippewa Falls, Wisconsin for a total purchase price of $14.9 million. This acquisition strengthened the Company's relationship with a strategic customer and provided Celestica with additional advanced manufacturing capabilities.

In December 1998, Celestica acquired IMS through a merger of IMS with Celestica Asia Inc., a subsidiary of the Company ("Celestica Asia"). The Company issued 7.6 million subordinate voting shares with a value of $124.0 million as consideration for the acquisition, and reserved an additional 0.8 million subordinate voting shares with a value of $9.5 million which are issuable upon the exercise of certain IMS options. IMS was an EMS provider with facilities in China, Thailand, Hong Kong, the United States and Mexico and had approximately 3,600 employees. In addition to providing an important Asian presence, this acquisition expanded Celestica's customer base, diversified its end-product markets and broadened its advanced manufacturing capabilities/low-cost offerings.

Celestica's acquisitions of Hewlett-Packard's PCA-layout design operation in Fort Collins, Colorado in February 1998 and its embedded systems design operation in Chelmsford, Massachusetts in March 1998 have broadened Celestica's service offerings and strengthened its relationships with Hewlett-Packard. Celestica also acquired "Customer Gateway Centres" in Santa Clara, California and Raleigh, North Carolina through its 1998 acquisitions of Analytic Design and Accu-Tronics. These Customer Gateway Centres are design and prototype centres that are conveniently located relative to the Company's customers and serve as an entry to Celestica's full suite of services and large-scale production facilities. In April 1998, the Company acquired a manufacturing facility in Monterrey, Mexico from Lucent Technologies which provided it with a presence in a low-cost geography. The aggregate purchase price paid by Celestica for these acquisitions was $17.9 million.

Celestica's 12 acquisitions completed in 1997 and 1998 had purchase prices ranging from $2.5 million to $133.7 million, totalling $471.3 million. Celestica continues to examine numerous acquisition opportunities in order to:

- expand into new geographies to enhance its global presence;
- create strategic relationships with new customers and diversify end-product programs with existing customers;
- expand its capacity in selected geographic regions to take advantage of existing infrastructure or low-cost manufacturing;
- diversify its business by entering new market sectors and increasing penetration in the communications and other non-computer market sectors; and
- broaden service offerings.

Celestica's near-term targets for expansion are Central Europe and Brazil, and the Company has identified several acquisition candidates in these regions. Celestica also has identified several possible facility acquisitions that would enhance its operations, increase its penetration in non-computer sectors and establish strategic relationships with new customers. Consistent with its past practices, Celestica is engaged in ongoing discussions with respect to several possible acquisitions of widely varying sizes, from small facility acquisitions to significant multiple facility acquisitions. There can be no assurance that any of these discussions will result

in a definitive purchase agreement and, if they do, what the terms or timing of any agreement would be. Celestica expects to continue the current discussions and actively pursue other opportunities.

Celestica expects each acquisition to be accretive to earnings and cash flow after a transition period for the acquisition, generally one year. The initial margins from a newly acquired facility historically have been lower than Celestica's overall margins for several reasons: frequently, the acquired facility is underutilized; some business at the new facility may be lower margin business (such as full system assembly); some newly acquired facilities may be less efficient initially; and Celestica may accept lower initial margins on large-scale projects with significant new customers. The risks of lower margins frequently are mitigated during transition periods by supply arrangements agreed to in connection with a particular acquisition. These arrangements may include limited overhead contribution commitments, take or pay arrangements or limited revenue or product volume guarantees to support the financial viability of the facility until it reaches self-sufficiency. Celestica expects that the results for the acquired facilities will improve over the transition period as Celestica: (i) increases capacity utilization and reduces cost; (ii) completes integration activities; (iii) implements Celestica's processes and disciplines to reduce costs and obtain the cost benefits of its procurement leverage; and (iv) introduces new business from the original customer and others.

RESULTS OF OPERATIONS

Celestica's revenue and margins from period to period are affected by the volume of turnkey versus consignment sales and the mix of business between full system assembly and printed circuit assemblies. With turnkey manufacturing, where Celestica purchases the materials and components, revenue is higher and margins are generally lower. With consignment sales, where the customer purchases all or a portion of the materials and components necessary for production, revenue is lower, since Celestica records only the value-added portion as revenue, and margins are generally higher. The majority of Celestica's revenue is generated from turnkey sales. Moreover, full system assembly business typically generates lower margins than printed circuit assemblies because of the high material content in system assembly as a percentage of revenue and the lower value-added content.

Celestica's contracts with its key customers generally provide a framework for its overall relationship with the customer. Actual production volumes are based on purchase orders for delivery of products. These orders typically do not commit to firm production schedules for more than 30 to 90 days in advance. Celestica minimizes risk relative to its inventory by usually ordering materials and components only to the extent necessary to satisfy existing customer orders. Celestica is largely protected from the risk of inventory cost fluctuations as these costs are generally passed through to customers.

Celestica's annual and quarterly results are primarily affected by the level and timing of customer orders, fluctuations in material costs and the mix of materials and labour and manufacturing overhead costs. The level and timing of a customer's orders will vary due to the customer's attempt to balance its inventory, changes in its manufacturing strategy and variation in demand for its products. Celestica's annual and quarterly operating results are also affected by capacity utilization and other factors, including price competition, experience in manufacturing a particular product, the degree of automation used in the assembly process, the efficiencies achieved by Celestica in managing inventories and capital assets, the timing of expenditures in anticipation of increased sales, the timing of acquisitions and related integration costs, customer product delivery requirements and shortages of components or labour. Historically, Celestica has experienced some seasonal variation in revenue, with revenue typically being highest in the fourth quarter and lowest in the first quarter.

The comparison of results of operations from period to period is significantly affected by the timing of Celestica's acquisitions. There is no certainty that the historical pace of Celestica's acquisitions will continue in the future.

The table below sets forth certain operating data expressed as a percentage of revenue for the periods indicated:

	Predecessor Company	Celestica Inc.			
	Period from January 1, 1996 to October 22, 1996	Period from September 27, 1996 to December 31, 1996	1996 (1)	Year ended December 31, 1997	**1998**
Revenue	100.0%	100.0%	100.0%	100.0%	**100.0%**
Cost of sales	95.1	90.3	94.4	93.0	**92.9**
Gross profit	4.9	9.7	5.6	7.0	**7.1**
Selling, general and administrative expenses	1.7	4.1	2.1	3.4	**4.0**
Amortization of intangible assets	–	0.6		0.8	**1.4**
Integration costs related to acquisitions	–	–		0.6	**0.3**
Other charges	–	–		0.7	**2.0**
Operating income (loss)	3.2	5.0		1.5	**(0.6)**
Interest expense, net	0.5	2.3		1.7	**1.0**
Earnings (loss) before income taxes	2.7	2.7		(0.2)	**(1.6)**
Income taxes (recovery)	1.2	1.6		0.1	**(0.1)**
Net earnings (loss)	1.5%	1.1%		(0.3)%	**(1.5)%**

(1) For the purposes of comparison, the revenue, cost of sales, gross profit and selling, general and administrative expenses of the Predecessor Company for the period from January 1 to October 22, 1996 have been combined with the revenue, cost of sales, gross profit and selling, general and administrative expenses of Celestica for the period from September 27 to December 31, 1996. The Predecessor Company was Celestica International Inc., a wholly-owned subsidiary of IBM Canada Ltd.

Adjusted net earnings

As a result of the significant number of acquisitions made by Celestica over the past two years, management of Celestica uses adjusted net earnings as a measure of operating performance on an enterprise-wide basis. Adjusted net earnings excludes the effects of acquisition-related charges (most significantly, amortization of intangible assets and integration costs related to acquisitions) and other charges (the write down of intellectual property and goodwill, the write-off of deferred financing costs and debt redemption fees and an unusual credit loss) and the related income tax effect of these adjustments. Adjusted net earnings is not a measure of performance under Canadian GAAP or U.S. GAAP. Adjusted net earnings should not be considered in isolation or as a substitute for net earnings prepared in accordance with Canadian GAAP or U.S. GAAP or as a measure of operating performance or profitability. The following table reconciles net earnings (loss) to adjusted net earnings:

	Predecessor Company	Celestica Inc.		
	Period from January 1, 1996 to October 22, 1996	Period from September 27, 1996 to December 31, 1996	Year ended December 31, 1997	**1998**
	(in millions)	(in millions)		
Net earnings (loss)	$ 25.9	$ 3.2	$ (6.9)	**$ (48.5)**
Amortization of intangible assets	–	1.8	15.3	**45.4**
Integration costs related to acquisitions	–	–	13.3	**8.1**
Other charges	–	–	13.9	**64.7**
Income tax effect of above	–	–	(12.3)	**(24.4)**
Adjusted net earnings	$ 25.9	$ 5.0	$ 23.3	**$ 45.3**

Revenue

Revenue increased $1,242.6 million, or 61.9%, to $3,249.2 million in 1998 from $2,006.6 million in 1997. This increase resulted from new program wins with existing customers, principally at Celestica's U.S. facilities, and growth through strategic acquisitions. Revenue for Celestica's Canadian operations grew $280.9 million, or 22.0%, to $1,555.6 million in 1998 from $1,274.7 million in 1997. This increase was the result of increased business with Celestica's existing customers, partially offset by lower revenue for memory/power resulting from memory price declines in 1998 and the conversion of one IBM memory program from turnkey to consignment sales (for which Celestica records only the value-added portion as revenue) in April 1997, with a revenue impact of approximately $115.0 million. Revenue at Celestica's U.S. locations increased $675.1 million, or 250.8%, to $944.3 million in 1998 from $269.2 million in 1997. The U.S. acquisitions completed in 1998 contributed approximately $68.0 million to U.S. revenue. The IMS acquisition contributed no revenue in 1998 since the acquisition did not occur until December 30, 1998. Revenue for Europe increased $286.6 million, or 61.9%, to $749.3 million in 1998 from $462.7 million in 1997, primarily as a result of increased business with existing key customers. The acquisition of the Irish facility contributed approximately $75.0 million in revenue from the date of its acquisition in February 1998.

Revenue decreased $10.2 million, or 0.5%, to $2,006.6 million in 1997 from $2,016.8 million in 1996. Several factors contributed to this result: 1996 revenue included $248.5 million in revenue for a proprietary data storage system ("RAMAC") which was re-sourced by IBM in anticipation of the divestiture of Celestica by IBM in 1996 and one IBM memory program was converted from turnkey manufacturing to consignment resulting in revenue reduction of approximately $115.0 million, as described earlier. In addition, memory/power revenue decreased $636.4 million from $1,120.0 million in 1996 to $483.6 million in 1997. This decrease was primarily attributable to declining memory prices from 1996 to 1997. These 1997 revenue decreases were offset by a $1,043.6 million increase in non-IBM EMS revenue resulting from Celestica's diversification of its customer base. This increase included $732.5 million attributable to acquisitions completed in 1997.

The following customers represented more than 10% of total revenue for each of the indicated years:

	1996	1997	**1998**
Hewlett-Packard			✔
Sun Microsystems		✔	✔
IBM		✔	✔
Cisco Systems	✔	✔	

Celestica's top five customers represented in the aggregate, 71.8% of total revenue in 1998 compared to 70.4% in 1997 and 90.8% in 1996.

Gross profit

Gross profit increased $90.8 million, or 65.0%, to $230.5 million in 1998 from $139.7 million in 1997. Gross margin increased to 7.1% in 1998 from 7.0% in 1997. The improvement in gross profit and gross margin was due to improved cost management and facility utilization in Canada and Europe which was partially offset by a larger percentage of lower margin business associated with the Colorado and New England operations and the transitioning of operations in Celestica's U.S. and Mexico acquisitions.

Gross profit increased $26.7 million, or 23.6%, to $139.7 million in 1997 from $113.0 million in 1996. Gross margin increased to 7.0% in 1997 from 5.6% in 1996. The increase in gross profit and gross margin was primarily the result of an $18.5 million memory inventory write down in 1996 which reduced gross profit and gross margin in 1996, and a shift in the overall mix of 1997 revenue away from memory and power products toward EMS services that generate higher gross margins.

During 1998, the net change in the Company's allowance for doubtful accounts was an increase of $4.9 million to $7.7 million at December 31, 1998 from $2.8 million at December 31, 1997. In addition, the net change in the Company's reserve for inventory obsolescence was an increase of $15.6 million to $47.5 million at December 31, 1998 from $31.9 million at December 31, 1997.

During 1997, the net change in the Company's allowance for doubtful accounts was an increase of $2.0 million, to $2.8 million at December 31, 1997 from $0.8 million at December 31, 1996. In addition, the net change in the Company's reserve for inventory obsolescence was an increase of $14.2 million, to $31.9 million at December 31, 1997 from $17.7 million at December 31, 1996.

The provision for these reserves had the effect of decreasing gross profit for 1998 and 1997 by approximately $28.3 million and $36.7 million, respectively, increasing selling, general and administrative expenses by $2.8 million and $6.7 million, respectively, and decreasing net earnings for 1998 and 1997 by $31.1 million and $43.4 million, respectively. The increases in these reserves and the provisions charged to earnings are consistent with the increases in accounts receivable and inventory balances during the year.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $62.3 million, or 91.2%, to $130.6 million (4.0% of revenue) in 1998 from $68.3 million (3.4% of revenue) in 1997. The increase, both in amount and as a percentage of revenue, was a result of higher selling and marketing expenses incurred to support EMS growth as well as expenses incurred by the operations acquired in the last quarter of 1997 and in 1998.

Selling, general and administrative expenses increased $26.0 million, or 61.5%, to $68.3 million (3.4% of revenue) in 1997 from $42.3 million (2.1% of revenue) in 1996. The increase, both in amount and as a percentage of revenue, was a result of operating expenses incurred by the facilities acquired in 1997 and amortization of deferred financing fees relating to the acquisition of Celestica International Inc. from IBM in the fourth quarter of 1996.

Research and development costs increased to $19.8 million in 1998 from $15.1 million in 1997 and $13.9 million in 1996. Research and development costs were less than 1% of revenue in 1996, 1997 and 1998.

Intangible assets and amortization

Amortization of intangible assets increased $30.1 million, or 196.7%, to $45.4 million in 1998 from $15.3 million in 1997 as a result of two factors. Due to rapid technological changes in the market, together with the changes in the volumes and mix of revenue derived from IBM, effective January 1, 1998, Celestica revised the estimated useful life of goodwill and other intangible assets from 20 years to 10 years and revised the estimated useful life of intellectual property from 20 years to 5 years. The revised estimated useful life more closely aligns Celestica's accounting policies for goodwill, other intangible assets and intellectual property with the accounting policies of other participants in the industry. This change increased amortization expense in 1998 from approximately $22.0 million to approximately $41.3 million, based on the net asset values at January 1, 1998. The balance of the increase from 1997 to 1998 was a result of the amortization of goodwill and other intangible assets arising from the acquisitions completed in the last quarter of 1997 and in 1998.

Amortization of intangible assets increased $13.5 million, or 750.0%, to $15.3 million in 1997 from $1.8 million in 1996. Amortization for 1996 represented only the period from September 27 to December 31, whereas amortization for 1997 included a full year of amortization related to the acquisition from IBM in 1996 as well as amortization related to Celestica's 1997 acquisitions.

The excess of the purchase price paid over the fair value of tangible assets acquired in the acquisitions completed in 1998 amounted to $105.5 million and has been allocated to goodwill and other intangible assets. Of this amount, $92.3 million related to the acquisition of IMS. In the IMS acquisition, Celestica acquired $169.7 million of identifiable assets and assumed liabilities of $128.3 million.

In 1997, the excess of the purchase price paid over the fair value of tangible assets acquired in facility acquisitions amounted to $126.8 million. In these acquisitions Celestica acquired identifiable assets of $336.9 million and assumed liabilities of $182.0 million. As Celestica was not acquiring ongoing businesses, Celestica considered these acquisitions to be primarily the acquisition of ongoing relationships with significant non-IBM customers. Accordingly, Celestica considered other strategic benefits of each acquisition rather than considering multiples of earnings or other financial measures. These strategic benefits included access to increased manufacturing capacity and capabilities, access to particular geographic markets and development of new customer and supplier relationships. In the case of the facilities acquisitions from Hewlett-Packard, Celestica believes that a portion of the purchase price paid in these acquisitions related to the long-term relationships with Hewlett-Packard. Accordingly, for accounting purposes Celestica has allocated to intangible assets the excess of the purchase price paid over the fair value of the tangible assets acquired in the Hewlett-Packard acquisitions. Further, Celestica believes that the relationships with Hewlett-Packard will extend beyond the period of the production agreements and, for accounting purposes, has determined that 10 years is a reasonable period of time over which to amortize the intangible assets acquired in these acquisitions.

At December 31, 1998, intangible assets represented 22.9% of Celestica's total assets compared to 26.1% at December 31, 1997.

In connection with certain acquisitions, Celestica has entered into production agreements with its OEM customers with terms of one to three years in duration. These agreements contain limited overhead contribution provisions or product volume guarantees for only a short period following the purchases. Celestica may enter into similar agreements in connection with future facility acquisitions.

Integration costs related to acquisitions

Integration costs related to acquisitions represent costs incurred within 12 months of the acquisition date, such as the costs of implementing compatible information technology systems in newly acquired operations, establishing new processes related to marketing and distribution processes to accommodate new customers and salaries of personnel directly involved with integration activities. Integration costs decreased $5.2 million to $8.1 million in 1998 from $13.3 million in 1997. All of the integration costs incurred related to newly acquired facilities, and not to the Company's existing operations. No such charges were incurred in 1996 as no acquisitions were made. Celestica expects to incur integration costs in 1999 as it completes the integration of operations acquired in 1998. Celestica expects to continue to incur additional integration costs in the future as acquisitions continue to be an important part of the Company's growth strategy.

Other charges

Other charges are non-recurring items or items that are unusual in nature. Other charges in 1998 totalled $64.7 million, comprised of a write down of the carrying value of intellectual property and goodwill amounting to $41.8 million, the write-off of deferred financing costs and debt redemption fees of $17.8 million and other charges of $5.1 million. The write down of the carrying value of intellectual property and goodwill of $41.8 million consisted of a first quarter charge of $35.0 million relating to certain test and process know-how and non-commercial computer programs and a fourth quarter charge of $6.8 million relating to goodwill. The $17.8 million write-off of deferred financing costs and debt redemption fees related to the prepayment of debt with proceeds from the Company's initial public offering.

At December 31, 1997, Celestica reviewed the carrying value of its intellectual property in the ordinary course of preparing its financial statements for the 1997 fiscal year. A significant portion of this intellectual property was acquired from IBM and is comprised of test and process know-how (a portion of which is used in support of Celestica's higher complexity product sales to IBM), non-commercial computer programs and confidential information used in the manufacturing of Celestica's power products. EMS revenue generated from IBM had decreased in 1997 compared to 1996 as a result of lower PCA demand for IBM mainframes and a reduction in memory component prices for PCAs. Celestica expected to maintain the level of higher complexity IBM business in fiscal 1998 at levels close to that experienced in fiscal 1997. As a result, Celestica concluded that the carrying value of its intellectual property would be recoverable in the future and therefore there was no impairment in the value of its intellectual property at that time.

In the first quarter of 1998, the decline in IBM EMS revenue continued and was greater than expected. In addition, the business mix of sales to IBM had shifted significantly from higher complexity products to lower complexity products. This shift was also unexpected. After further review, Celestica concluded that the decline in IBM EMS revenue and the shift in the mix of sales to IBM would continue for the remainder of the year. The manufacture of the lower complexity products does not require the use of much of the technology purchased from IBM in 1996. As a result of these specific changes in volumes and mix of products, Celestica updated its forecast of revenue derived from IBM. Celestica carried out a further review of the carrying value of its test and process know-how at the end of the first quarter of 1998. Further, the reduction in business from IBM was offset by an increase in non-IBM business resulting in the development and implementation of more state-of-the-art technologies which replaced some of the test and process know-how purchased from IBM. Based on this review, Celestica wrote down certain of the test and process know-how by $24.5 million.

Separately, in late March 1998, Celestica made a decision to replace certain of its non-commercial computer programs with new programs and to discontinue use of the non-commercial computer programs acquired from IBM. As a result, Celestica wrote down the carrying value of these programs by $10.5 million.

In December 1998, as a result of the merger with IMS, certain goodwill in the amount of $6.8 million became impaired and was written off.

Other charges of $13.9 million in 1997 resulted from a credit loss relating to a customer which filed for bankruptcy. Celestica has not experienced any other material credit losses. As part of Celestica's risk management strategy, Celestica now insures against substantially all its credit risk with external credit insurers.

Interest expense

Interest expense, net of interest income, decreased $1.4 million, or 4.2%, to $32.2 million in 1998 from $33.6 million in 1997. Celestica incurred interest charges of approximately $11.6 million on additional borrowings to finance acquisitions completed in the first half of 1998 and the growth in operations of the Company. Debt levels during the second half of 1998 were lower than in the first half of 1998 as the net proceeds from the initial public offering were used to prepay a significant portion of the Company's debt, yielding interest savings of approximately $13.8 million.

Interest expense, net of interest income, increased $18.7 million, or 125.5%, to $33.6 million in 1997 from $14.9 million in 1996, which was comprised of $8.4 million for the period from January 1 to October 22, 1996 and $6.5 million for the period from September 27 to December 31, 1996. This increase was primarily due to higher levels of long-term debt as a result of the change in capitalization related to the acquisition of Celestica from IBM and long-term debt incurred to finance the 1997 acquisitions.

Income taxes

Income tax expense in 1998 is comprised of a current income tax expense of $15.0 million and a recovery of deferred income taxes of $17.0 million, resulting in a net recovery in income taxes of $2.0 million in 1998 compared to a net income tax expense of $2.2 million in 1997. This income tax recovery resulted primarily from the recognition of the tax benefit of net operating losses incurred in 1998 in certain jurisdictions which exceeded the current income tax expense on operating profits generated in other jurisdictions.

Income taxes decreased $22.6 million, or 91.1%, to $2.2 million in 1997 from $24.8 million in 1996, comprised of $20.3 million for the period from January 1 to October 22, 1996 and $4.5 million for the period from September 27 to December 31, 1996. During the fourth quarter of 1997, with an effective date of January 1, 1997, Celestica adopted a new Canadian GAAP standard whereby future income taxes are recognized based on assets and liabilities carried on the balance sheet. The adoption of the new standard resulted in a reduction of income tax expense of $4.5 million in 1997.

Celestica has recognized a net deferred tax asset at December 31, 1998 of $40.6 million which relates to the recognition of net operating losses and future income tax deductions available to reduce future years' income for income tax purposes. Celestica's current projections demonstrate that it will generate sufficient taxable income (in excess of $115.0 million) in the future to realize the benefit of these deferred income tax assets in the carry-forward periods, not exceeding 15 years.

LIQUIDITY AND CAPITAL RESOURCES

For the year ended December 31, 1998, Celestica generated cash from operating activities of $81.6 million. Earnings generated $84.9 million in cash which was used to partially fund the operations and acquisition activities of the Company. Average non-cash working capital as a percentage of revenue decreased to 8.0% in 1998 from 11.0% in 1997. Investing activities in 1998 included the acquisitions of Analytic Design, Accu-Tronics (Celestica North Carolina), Celestica Mexico, the SGI facility (Celestica Wisconsin) and the Madge Networks facility (Celestica Ireland) which used cash, net of cash acquired, of $48.7 million. The acquisition of IMS was completed by issuing subordinate voting shares with a value of $124.0 million and reserving additional subordinate voting shares with a value of $9.5 million which are issuable upon the exercise of certain IMS options.

In July 1998, Celestica replaced its then outstanding credit facilities with a global, unsecured, revolving credit facility of $250 million provided by a syndicate of lenders. The new credit facility permits Celestica and certain designated subsidiaries to borrow funds directly for general corporate purposes (including acquisitions) at floating rates. The credit facility is available for a period of five years. Under the credit facility, Celestica is required to maintain certain financial ratios; its ability and that of certain of its subsidiaries to grant security interests, dispose of assets, change the nature of its business or enter into business combinations is restricted; and a change in control is an event of default. No borrowings were outstanding under the credit facility at December 31, 1998.

The only other financial covenant in effect is a debt incurrence covenant contained in Celestica's Senior Subordinated Notes due 2006. This covenant is based on Celestica's fixed charge coverage ratio, as defined in the indenture governing the Senior Subordinated Notes.

Celestica believes that cash flow from operating activities, together with borrowings available under its global, unsecured, revolving credit facility, and its share issuance on March 4, 1999 will be sufficient to fund currently anticipated working capital, planned capital spending and debt service requirements for the next 12 months. The Company's planned capital spending for 1999 is approximately $125 million of which approximately $46 million is committed as of January 31, 1999. In addition, Celestica regularly reviews acquisition opportunities, and may therefore require additional debt or equity financing. Celestica also intends to increase the availability of committed revolving credit by $150 million to provide additional liquidity and financing flexibility in 1999.

Celestica prices the majority of its products in U.S. dollars, and the majority of its material costs are also denominated in U.S. dollars. However, a significant portion of its non-material costs (including payroll, facilities costs and costs of locally sourced supplies and inventory) are denominated in Canadian dollars and British pounds sterling (approximately Cdn$320 million and £84.0 million on an annualized basis, respectively). As a result, Celestica may experience transaction and translation gains or losses because of currency fluctuations. At December 31, 1998, Celestica had forward foreign exchange contracts covering various currencies with expiry dates up to January 2000 in a notional amount of $163.9 million. The fair value of these contracts at December 31, 1998 was an unrealized loss of $10.2 million. Celestica may, from time to time, enter into hedging transactions to minimize its exposure to foreign currency and interest rate risks. Celestica's current hedging activity is designed to reduce the variability of its foreign currency costs and involves entering into contracts to sell U.S. dollars to purchase Canadian dollars and British pounds sterling at future dates. In general, these contracts extend for periods of less than 18 months. There can be no assurance that such hedging transactions, if entered into, will be successful.

A portion of the costs of the operations Celestica acquired through the IMS acquisition are denominated in other currencies, such as the Thai baht, the Hong Kong dollar and the Chinese renminbi. The recent economic problems in Hong Kong and Thailand, including the devaluation of the Thai baht, did not adversely impact IMS. Celestica does not expect the impact of future exchange rate changes in these currencies to have a material effect on Celestica's operations.

YEAR 2000

General

The year 2000 issue concerns the potential exposures related to the automated generation of business and financial misinformation resulting from the fact that certain computer systems, embedded systems and hardware use two digits, rather than four, to define the applicable year. On January 1, 2000, these systems and programs may recognize the date as January 1, 1900 and may process data incorrectly or stop processing data altogether. Celestica relies upon vendor-supplied technology and recognizes the potential business risk to its assets and systems associated with the arrival of the year 2000.

Status of remediation

Celestica has identified three phases in its year 2000 project: identify, test and validate. The identification phase involves the collection and validation of an inventory of computer related devices and an evaluation and assessment of each inventoried item. The testing phase includes remediation (repair, replace or retire) and various levels of testing for compliance. The validation phase includes the verification that the system or process will continue to function in the year 2000 and beyond.

As of January 31, 1999, Celestica had identified approximately 700 year 2000 projects that were considered mission critical – that is, projects where the failure to complete the year 2000 remediation on a timely basis would cause a substantial disruption in, or cessation of, a significant portion of Celestica's business. Mission critical projects include remediation of all hardware and software for all information technology ("IT") applications and systems, all manufacturing processes and all production facility processes. As of January 31, 1999, Celestica had completed assessment on approximately 98% of mission-critical projects, testing on approximately 73% and validation on approximately 60%.

Non-mission critical projects include non-IT systems such as those which may be used in the operation of certain non-production machinery and equipment. As of January 31, 1999, Celestica had completed assessment on approximately 97% of such non-mission critical projects, testing on approximately 88% and validation on approximately 71%.

Celestica expects to complete all year 2000 remediation for these projects by the end of June 1999. The failure to complete the remedial actions on a timely basis could have a material adverse effect on Celestica's business, results of operations and financial condition.

Third party compliance

Celestica's year 2000 project scope extends to assessing issues affecting suppliers' and customers' products, services, systems and operations. In early 1998, Celestica sent questionnaires to substantially all of its vendors and suppliers requesting information regarding their year 2000 compliance, and Celestica is following up on all unsatisfactory responses. Based on information available to it at December 31, 1998, Celestica believes that approximately 67% of its suppliers are year 2000 compliant. Celestica will undertake on-site supplier reviews to confirm compliance where it considers it appropriate.

In addition to these formal inquiries, Celestica has been working closely on year 2000 issues with those third parties with which Celestica has significant relationships, including, in particular, significant customers and suppliers. Mutual testing of electronic data interfaces between Celestica and its significant customers and suppliers is being performed in an effort to ensure their year 2000 compliance.

Contingency plans

Celestica is developing contingency plans for potential year 2000 failures. Celestica intends to develop, where practicable, contingency plans for all mission critical processes. Celestica plans to complete these contingency plans by June 1999.

Estimated costs

Celestica currently estimates that the total costs for its year 2000 remediation projects, including remediation at IMS, will be approximately $10.0 million. As of December 31, 1998, Celestica and IMS had each incurred $3.0 million for year 2000 projects. Year 2000 expenditures are financed through funds generated from operations, and are capitalized to the extent they enhance the capabilities and useful life of the underlying systems. Celestica has not deferred any major information technology projects as a result of its year 2000 remediation efforts.

Part of Celestica's overall acquisition strategy is to implement common technology platforms across all of its major locations. In addition, Celestica has been refreshing many of its existing systems (supply chain systems, engineering systems and office systems) in support of its corporate growth

strategies. Since the migration to common technology platforms is part of Celestica's overall acquisition and integration strategies and no significant systems implementation was accelerated as a result of year 2000 issues, none of these costs have been included in Celestica's estimate of year 2000 remediation costs noted above.

Celestica has not assessed the financial impact of not being year 2000 compliant. Failure to be year 2000 compliant could have a material adverse effect on Celestica's business, results of operations and financial condition.

BACKLOG

Although Celestica obtains firm purchase orders from its customers, OEM customers typically do not make firm orders for delivery of products more than 30 to 90 days in advance. Celestica does not believe that the backlog of expected product sales covered by firm purchase orders is a meaningful measure of future sales since orders may be rescheduled or cancelled.

RECENT ACCOUNTING DEVELOPMENTS

During 1997, the Canadian Institute of Chartered Accountants ("CICA") issued a new accounting standard for income taxes which is substantially consistent with the existing accounting standard under U.S. GAAP. This new standard has been adopted by Celestica effective January 1, 1997. The change would not have had a significant effect on the accounting for income taxes of Celestica for the period from September 27, 1996 to December 31, 1996. The new accounting standard was not applied to the accounting for income taxes of the Predecessor Company. See Note 24 to the Celestica Consolidated Financial Statements for details of the differences between the accounting for income taxes under Canadian and U.S. GAAP.

The CICA also issued a new standard for the reporting of segmented information in financial statements, effective for fiscal years beginning on or after January 1, 1998 (quarterly financial information beginning after January 1, 1999). Celestica has adopted the new standard for its fiscal year ended December 31, 1998. See Note 22 to the Celestica Consolidated Financial Statements for segmented information.

As of January 1, 1998, Celestica implemented SFAS No. 130 "Reporting Comprehensive Income." Comprehensive earnings (loss) for the year ended December 31, 1998 were consistent with net earnings (loss) for the year for purposes of presentation of financial information in accordance with U.S. GAAP.

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. The Company will be required to implement SFAS No. 133 for its fiscal year ended December 31, 2000. The Company expects the adoption of SFAS No. 133 will have no material impact on its financial position, results of operations or cash flows.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use." SOP 98-1 requires that entities capitalize certain costs related to internal-use software once certain criteria have been met. The Company will be required to implement SOP 98-1 for its fiscal year ended December 31, 1999. The Company has not yet determined the impact of SOP 98-1 on its financial position, results of operations and cash flows.

In April 1998, the AICPA issued SOP 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 requires that all start-up costs related to new operations must be expensed as incurred. In addition, all start-up costs that were capitalized in the past must be written off when SOP 98-5 is adopted. The Company will be required to implement SOP 98-5 for its fiscal year ended December 31, 1999. The Company expects that the adoption of SOP 98-5 will have no material impact on its financial position, results of operations or cash flows.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these financial statements and in other sections of this Annual Report.

The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies which management believes are appropriate for the Company are described in note 2 to the Consolidated Financial Statements.

The Board of Directors is responsible for reviewing and approving the Consolidated Financial Statements and overseeing management's performance of its financial reporting responsibilities. An Audit Committee of three non-management Directors is appointed by the Board.

The Audit Committee reviews the Consolidated Financial Statements, adequacy of internal controls, audit process and financial reporting with management and with the external auditors. The Audit Committee reports to the Directors prior to the approval of the audited Consolidated Financial Statements for publication.

KPMG LLP, the Company's external auditors, who are appointed by the shareholders, audited the Consolidated Financial Statements in accordance with generally accepted auditing standards to enable them to express to the shareholders their opinion on the Consolidated Financial Statements. Their report is set out below.

Anthony P. Puppi
Chief Financial Officer
January 29, 1999

AUDITORS' REPORT

TO THE SHAREHOLDERS OF CELESTICA INC.

We have audited the consolidated balance sheets of Celestica Inc. as at December 31, 1997 and 1998 and the consolidated statements of earnings (loss), shareholders' equity and cash flows for each of the years in the two year period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1998 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 1998 in accordance with generally accepted accounting principles in Canada, which, except as described in note 24, also conform, in all material respects, with generally accepted accounting principles in the United States.

The consolidated financial statements for the Predecessor Company for the period from January 1, 1996 to October 22, 1996 and for the Company for the period from incorporation on September 27, 1996 to December 31, 1996 were audited by other auditors who expressed opinions without reservations on those statements in their report dated January 29, 1997.

KPMG LLP

Chartered Accountants
Toronto, Canada
January 29, 1999
(February 19, 1999 as to note 23)

CONSOLIDATED BALANCE SHEETS (in thousands of U.S. dollars)

	As at December 31, 1997	1998
Assets		
Current assets:		
Cash and short-term investments	$ 106,052	**$ 31,721**
Accounts receivable (note 4)	372,146	**462,995**
Inventories (note 5)	312,926	**430,932**
Prepaid and other assets	22,333	**38,923**
Deferred income taxes	18,245	**18,354**
	831,702	**982,925**
Capital assets (note 6)	124,242	**214,926**
Intangible assets (note 7)	352,264	**374,508**
Other assets (note 8)	39,099	**64,066**
	$ 1,347,307	**$ 1,636,425**
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	$ 890	**$ –**
Accounts payable	271,419	**428,486**
Accrued liabilities	174,200	**174,858**
Income taxes payable	4,515	**18,602**
Deferred income taxes	2,455	**2,482**
Current portion of long-term debt (note 9)	14,961	**2,321**
	468,440	**626,749**
Accrued post-retirement benefits	4,245	**6,347**
Long-term debt (note 9)	503,964	**133,483**
Other long-term liabilities	316	**1,908**
Deferred income taxes	7,116	**8,672**
	984,081	**777,159**
Shareholders' equity	363,226	**859,266**
	$ 1,347,307	**$ 1,636,425**

Commitments and contingencies (notes 19 and 20)
Subsequent event (note 23)
Canadian and United States accounting policy differences (note 24)

On behalf of the Board:

Eugene V. Polistuk
Director

Anthony P. Puppi
Director

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) (in thousands of U.S. dollars, except per share amounts)

	Predecessor Company	Celestica Inc.		
	Period from January 1, 1996 to October 22, 1996	Period from September 27, 1996 to December 31, 1996	Year ended December 31, 1997	**1998**
Revenue	$ 1,728,677	$ 288,151	$ 2,006,634	**$ 3,249,200**
Cost of sales	1,643,634	260,232	1,866,967	**3,018,665**
Gross profit	85,043	27,919	139,667	**230,535**
Selling, general and administrative expenses (note 11)	30,478	11,869	68,315	**130,565**
Amortization of intangible assets	–	1,836	15,260	**45,372**
Integration costs related to acquisitions (note 12)	–	–	13,292	**8,123**
Write down of intangible assets (note 13)	–	–	–	**41,813**
Other charges (note 13)	–	–	13,900	**22,930**
	30,478	13,705	110,767	**248,803**
Operating income (loss)	54,565	14,214	28,900	**(18,268)**
Interest on long-term debt	2,385	6,567	41,180	**38,959**
Other interest, net	5,983	–	(7,547)	**(6,710)**
Earnings (loss) before income taxes	46,197	7,647	(4,733)	**(50,517)**
Income taxes (note 14):				
Current	19,965	2,125	6,664	**15,047**
Deferred (recovery)	366	2,350	(4,478)	**(17,093)**
	20,331	4,475	2,186	**(2,046)**
Net earnings (loss)	$ 25,866	$ 3,172	$ (6,919)	**$ (48,471)**
Basic earnings (loss) per share	$ 25,866	$ 0.16	$ (0.20)	**$ (0.94)**
Weighted average number of shares outstanding (in thousands)	1	20,000	34,789	**51,496**
Net earnings (loss) in accordance with U.S. GAAP (note 24)	$ 25,855	$ 3,145	$ (6,919)	**$ (54,717)**
Basic earnings (loss) per share, in accordance with U.S. GAAP (note 24)	$ 25,855	$ 0.16	$ (0.20)	**$ (1.06)**

Fully diluted loss per share has not been disclosed as the effect of the potential conversion of dilutive securities is anti-dilutive.

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (in thousands of U.S. dollars)

	Capital Stock (note 10)	Retained Earnings (Deficit)	Foreign Currency Translation Adjustment	Total Shareholders' Equity
Balance – September 27, 1996	$ –	$ –	$ –	$ –
Shares issued, net	200,011	–	–	200,011
Net earnings for the period	–	3,172	–	3,172
Balance – December 31, 1996	200,011	3,172	–	203,183
Shares issued, net (note 10)	167,406	–	–	167,406
Currency translation	–	–	(444)	(444)
Net loss for the year	–	(6,919)	–	(6,919)
Balance – December 31, 1997	367,417	(3,747)	(444)	363,226
Shares issued, net (note 10)	535,197	–	–	535,197
Shares to be issued (note 10)	9,460	–	–	9,460
Currency translation	–	–	(146)	(146)
Net loss for the year	–	(48,471)	–	(48,471)
Balance – December 31, 1998	**$ 912,074**	**$ (52,218)**	**$ (590)**	**$ 859,266**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands of U.S. dollars)

	Predecessor Company	Celestica Inc.		
	Period from January 1, 1996 to October 22, 1996	Period from September 27, 1996 to December 31, 1996	Year ended December 31, 1997	**1998**
Cash provided by (used in):				
Operations:				
Net earnings (loss)	$ 25,866	$ 3,172	$ (6,919)	**$ (48,471)**
Items not affecting cash:				
Depreciation and amortization	8,778	4,259	37,087	**86,935**
Deferred income taxes	366	2,350	(4,478)	**(17,093)**
Other charges	–	–	–	**64,743**
Other	(1,857)	(185)	(3,227)	**(1,255)**
Cash from earnings	33,153	9,596	22,463	**84,859**
Changes in non-cash working capital items:				
Accounts receivable	(7,633)	25,651	(142,889)	**(13,256)**
Inventories	43,526	46,481	(2,302)	**(50,732)**
Other assets	15,660	(11,187)	12,869	**(6,783)**
Accounts payable and accrued liabilities	(41,868)	(23,131)	153,024	**53,643**
Income taxes payable	(8,401)	(2,711)	(9,681)	**13,847**
Due to/from related parties	116,579	–	–	**–**
Non-cash working capital changes	117,863	35,103	11,021	**(3,281)**
Cash provided by operations	151,016	44,699	33,484	**81,578**
Investing:				
Acquisitions, net of cash acquired	–	(533,596)	(275,718)	**(48,678)**
Purchase of capital assets	(23,242)	(3,169)	(32,089)	**(65,770)**
Proceeds from sale of capital assets	901	6,619	–	**–**
Other	–	397	1,369	**(5,241)**
Cash used in investing activities	(22,341)	(529,749)	(306,438)	**(119,689)**
Financing:				
Bank indebtedness	–	368	522	**(890)**
Increase in long-term debt	–	350,000	229,663	**–**
Repayments of long-term debt	–	(25,000)	(35,738)	**(423,226)**
Issuance of short-term debt	148,467	210,000	–	**–**
Repayments of short-term debt	(120,000)	(210,000)	–	**–**
Deferred financing costs	–	(17,202)	(780)	**(2,179)**
Debt redemption fees	–	–	–	**(8,596)**
Issuance of share capital	–	200,011	163,124	**423,715**
Share issue costs	–	–	–	**(26,906)**
Dividends paid	(148,300)	–	–	**–**
Other	–	–	(912)	**1,862**
Cash provided by (used in) financing activities	(119,833)	508,177	355,879	**(36,220)**
Increase (decrease) in cash	8,842	23,127	82,925	**(74,331)**
Cash, beginning of period	9,230	–	23,127	**106,052**
Cash, end of period	$ 18,072	$ 23,127	$ 106,052	**$ 31,721**
Supplemental information				
Paid during the period:				
Interest	$ 8,906	$ 4,999	$ 42,575	**$ 38,959**
Taxes	$ 31,115	$ 4,544	$ 15,504	**$ 5,024**

Cash is comprised of cash and short-term investments.

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of U.S. dollars, except per share amounts)

1. NATURE OF BUSINESS:

These consolidated financial statements present the financial position and results of operations of Celestica Inc. ("Celestica Inc." or "Celestica" or "the Company"), as at December 31, 1997 and 1998 and for the period from the date of incorporation on September 27, 1996 to December 31, 1996 and for the years ended December 31, 1997 and 1998. Celestica was incorporated under the laws of Ontario and was inactive from September 27, 1996 until October 22, 1996. Celestica, through a wholly-owned subsidiary, acquired the shares of Celestica International Inc. (the "Predecessor Company") and certain related assets on October 22, 1996.

The primary operations of the Company are providing a full range of electronics manufacturing services including design, prototyping, assembly, testing, product assurance, supply chain management, worldwide distribution and after-sales service to its customers primarily in the computer and communications industries.

The Company's accounting policies are in accordance with accounting principles generally accepted in Canada and, except as outlined in note 24, are, in all material respects, in accordance with accounting principles generally accepted in the United States.

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

(b) Revenue:

Revenue is comprised of product sales and service revenue earned from engineering and design services. Revenue from product sales is recognized upon shipment of the goods recorded net of estimated product return and warranty costs. Service revenue is recognized as services are performed.

(c) Inventories:

Inventories are valued on a first-in, first-out basis at the lower of cost and replacement cost for production parts and at the lower of cost and net realizable value for work in progress and finished goods. Cost includes materials, direct labour and an application of relevant overhead.

(d) Capital assets:

Capital assets are carried at cost and amortized over their estimated useful lives on a straight-line basis. Estimated useful lives for the principal asset categories are as follows:

Buildings	25 to 40 years
Office equipment	5 to 10 years
Machinery and equipment	5 to 10 years
Buildings/leasehold improvements	up to 25 years or term of lease

(e) Intangible assets:

Intangible assets are comprised of goodwill, other intangible assets representing the excess of cost over the fair value of tangible assets acquired in facility acquisitions and intellectual property, including process know-how. Prior to 1998, goodwill and other intangible assets were amortized on a straight-line basis over 20 years and intellectual property was amortized on a straight-line basis over 8 to 20 years. Effective January 1, 1998, due to rapid technological changes in the market together with changes in revenue mix and volume with certain customers, the Company reassessed the useful lives of goodwill, other intangible assets and intellectual property. Based on this reassessment, the Company determined more appropriate amortization periods would be 10 years for goodwill and other intangible assets and five years for intellectual property. The Company began amortizing using the revised useful lives from January 1, 1998.

(f) Impairment of long-lived assets:

The Company reviews long-lived assets for impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of capital assets is measured by comparison of the carrying amount, including the unamortized portion of goodwill allocated to long-lived assets, to the projected future net cash flows the long-lived assets are expected to generate.

The Company assesses the recoverability of enterprise level goodwill by determining whether the unamortized goodwill balance can be recovered through undiscounted projected future net cash flows of the acquired operation. The amount of enterprise level goodwill impairment, if any, is measured based on projected future net cash flows. An impairment in the value of intellectual property is measured based on projected future net cash flows or if the Company no longer benefits from its use.

(g) Retirement plan and non-pension, post-retirement benefits:

Current service costs of the retirement plans and post-retirement health care and life insurance benefits are accrued in the period incurred. Prior service costs, resulting from improvements in the plans, are amortized over the remaining service period of employees expected to receive benefits under the plans.

(h) Deferred financing costs:

Costs incurred relating to the issuance of debt are deferred and amortized over the term of the related debt.

(i) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for future consequences attributable to differences between the financial statement carrying amounts of

existing assets and liabilities and their respective tax bases. When necessary a valuation allowance is recorded to reduce tax assets to an amount for which realization is more likely than not. The effect of changes in tax rates is recognized in the period in which the rate change occurs.

(j) Foreign currency translation:
The accounts of the Company's self-sustaining foreign operations are translated into U.S. dollars using the current rate method. Assets and liabilities are translated at the year-end exchange rate and revenues and expenses are translated at average exchange rates. Gains and losses arising from the translation of financial statements of foreign operations are deferred in the "Foreign currency translation adjustment" account included as a separate component of shareholders' equity.

Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the year-end rate of exchange. Non-monetary assets and liabilities denominated in foreign currencies are translated at historic rates and revenue and expenses are translated at average exchange rates prevailing during the month of the transaction. Exchange gains or losses arising from the translation of long-term monetary assets and liabilities are deferred and amortized on a straight-line basis over the remaining life of the asset or liability. All other exchange gains or losses are reflected in the consolidated statements of earnings (loss).

The Company enters into forward exchange contracts to hedge certain foreign currency transactions. The Company's forward exchange contracts do not subject the Company to risk from exchange rate movements because gains and losses on such contracts offset losses and gains on transactions being hedged.

(k) Financial instruments:
Financial instruments are initially recorded at historical cost. If subsequent circumstances indicate that a decline in the fair value of a financial asset or liability is other than temporary, the financial asset or liability is written down to its fair value.

(l) Research and development:
The Company annually incurs costs on activities that relate to research and development which are expensed as incurred unless development costs meet certain criteria for capitalization.

(m) Use of estimates:
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

3. ACQUISITIONS:

During 1997 and 1998 the Company completed certain acquisitions which were accounted for as purchases. The results of operations of the net assets acquired are included in these financial statements from their respective dates of acquisition:

1997 Acquisitions:

(a) Celestica Limited ("Celestica U.K.") (formerly Design to Distribution Limited):
Effective January 1, 1997, the Company acquired certain assets and assumed certain liabilities of Celestica U.K. from International Computers Limited Plc ("ICL"). Celestica U.K. was among the largest European-based participants in the electronics manufacturing services industry. The total purchase price of $61,164 was financed with a $20,283 (£12,500) unsecured loan note payable to ICL, $22,105 in cash and $18,776 in other debt financing.

(b) Celestica Colorado, Inc. ("CCI") and Celestica New England, Inc. ("CNE"):
In July and August 1997, the Company acquired the assets of Hewlett-Packard's printed circuit assembly facility in Fort Collins, Colorado and its full system assembly facility in Exeter, New Hampshire. In October 1997, the Company completed the purchase of related inventory. The total purchase price of $189,568 was financed with $44,300 in cash, $76,931 from the credit facilities of the Company, $28,181 in other debt financing and $40,156 in debt financing from the vendor.

(c) Ascent Power Technology Inc. ("Ascent"):
In October 1997, the Company acquired 100% of the issued and outstanding common shares of Ascent, a manufacturer of power systems with operations in Canada, the United States, and the United Kingdom. The total purchase price of $30,983 was financed with $7,208 in cash, the issue of $4,282 in shares of the Company and $19,493 in other debt financing. The value ascribed to the shares was based on the fair market value of those shares, as determined through negotiation with the vendors.

Under the provisions of the purchase agreement, the sellers could have earned additional consideration under earn-out provisions. In May 1998, the earn-out provisions were cancelled and a final payment of approximately $2,046 of additional consideration, including $260 of subordinate voting shares with an ascribed value based on the initial public offering price and $1,786 in cash, was negotiated with the vendors. This amount is payable over the period from June 30, 1998 to December 2000 and has been recorded as goodwill.

Details of the net assets acquired in these acquisitions, at fair value, were as follows:

	Celestica U.K.	CCI/CNE	Ascent
Current assets	$ 157,376	$ 107,712	$ 17,604
Capital assets	24,481	14,229	5,205
Other long-term assets	10,282	–	–
Goodwill	34,765	–	20,780
Other intangible assets	–	71,260	–
Liabilities assumed	(165,740)	(3,633)	(12,606)
Net assets acquired	$ 61,164	$ 189,568	$ 30,983
Financed by:			
Cash	$ 22,105	$ 44,300	$ 7,208
Debt	39,059	145,268	19,493
Issue of shares	–	–	4,282
	$ 61,164	$ 189,568	$ 30,983

Other intangible assets represent the excess of purchase price over the fair value of tangible assets acquired in facility acquisitions.

1998 Acquisitions:

(a) Celestica Ireland ("Ireland"):

In February 1998, the Company acquired 100% of the issued and outstanding shares of Madge Networks International B.V. The total purchase price of $23,112 was financed with $9,000 in cash and $14,112 from credit facilities of the Company.

(b) Celestica Wisconsin ("Wisconsin"):

In June 1998, the Company acquired certain assets of a manufacturing facility in Wisconsin from Silicon Graphics Inc. The total purchase price of $14,875 was financed with cash.

(c) Celestica Asia:

Effective December 30, 1998, the Company acquired by merger International Manufacturing Services, Inc. ("IMS"), a contract manufacturer with a significant presence in Asia. The former shareholders of IMS were entitled to receive 0.40 subordinate voting shares of Celestica or $7.00 in cash for each share of IMS. The total purchase price of $133,664 was financed with $213 in cash, the issue of $123,991 in subordinate voting shares of the Company with an ascribed value of $16.35 per share and the reservation of $9,460 in subordinate voting shares of the Company relating to the vested options of IMS with an exercise price less than fair value.

The following unaudited pro forma consolidated financial information reflects the impact of the acquisition on the Company assuming the acquisition had occurred at the beginning of the periods presented. This unaudited pro forma consolidated financial information has been provided for information purposes only and is not necessarily indicative of the results of operations or financial condition that actually would have been achieved if the acquisition had been completed on the date indicated or that may be reported in the future.

	Year ended December 31,	
(unaudited)	1997	**1998**
Revenue	$ 2,277,662	**$ 3,640,269**
Net loss	$ (8,536)	**$ (51,827)**
Basic loss per share	$ (0.20)	**$ (0.87)**
Net loss in accordance with U.S. GAAP	$ (8,536)	**$ (58,073)**
Basic loss per share, in accordance with U.S. GAAP	$ (0.20)	**$ (0.98)**
Weighted average number of shares outstanding (in thousands)	43,127	**59,080**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of U.S. dollars, except per share amounts)

(d) Other acquisitions:

In April 1998, the Company acquired certain assets and assumed certain liabilities of Celestica Mexico from Lucent Technologies Inc. In May 1998, the Company acquired the issued and outstanding shares of Analytic Design, Inc., a design and prototype facility located in Santa Clara, California. In September 1998, the Company acquired 100% of the issued and outstanding shares of Accu-Tronics Inc. (subsequently renamed Celestica North Carolina Inc.), a design and prototype facility located in Raleigh, North Carolina. The total purchase price for these acquisitions of $17,924 was financed with $7,046 in cash, $2,400 in subordinate voting shares of the Company and $8,478 from the credit facilities of the Company.

Details of the net assets acquired in these acquisitions, at fair value, are as follows:

	Ireland	Wisconsin	IMS	Other Acquisitions
Current assets	$ 15,490	$ 7,517	$ 133,826	$ 2,984
Capital assets	13,663	7,102	34,697	9,084
Other long-term assets	–	–	1,128	16
Goodwill	1,300	256	70,518	9,853
Intellectual property	–	–	21,800	–
Other intangible assets	–	–	–	1,750
Liabilities assumed	(7,341)	–	(128,305)	(5,763)
Net assets acquired	$ 23,112	$ 14,875	$ 133,664	$ 17,924
Financed by:				
Cash	$ 9,000	$ 14,875	$ 213	$ 7,046
Debt	14,112	–	–	8,478
Issue of shares	–	–	133,451	2,400
	$ 23,112	$ 14,875	$ 133,664	$ 17,924

Other intangible assets represent the excess of purchase price over the fair value of tangible assets acquired in facility acquisitions.

4. ACCOUNTS RECEIVABLE:

Accounts receivable are net of an allowance for doubtful accounts of $7,684 at December 31, 1998 (1997 – $2,849).

5. INVENTORIES:

	1997	**1998**
Raw materials	$ 221,695	**$ 315,185**
Work in progress	52,381	**79,234**
Finished goods	38,850	**36,513**
	$ 312,926	**$ 430,932**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of U.S. dollars, except per share amounts)

6. CAPITAL ASSETS:

	Cost	Accumulated Amortization	Net Book Value
1997			
Land	$ 3,388	$ –	$ 3,388
Buildings	28,145	1,075	27,070
Office equipment	10,411	2,032	8,379
Machinery and equipment	93,049	16,897	76,152
Building improvements	10,491	1,238	9,253
	$ 145,484	$ 21,242	$ 124,242

	Cost	Accumulated Amortization	Net Book Value
1998			
Land	$ 5,647	$ –	$ 5,647
Buildings	40,486	2,440	38,046
Office equipment	24,219	8,211	16,008
Machinery and equipment	184,179	44,251	139,928
Building improvements	17,698	2,401	15,297
	$ 272,229	$ 57,303	$ 214,926

The above amounts include $5,800 (1997 – $2,690) of assets under capital lease and accumulated amortization of $1,377 (1997 – $395) related thereto.

Rental expense for the year ended December 31, 1998 was $13,338 (December 31, 1997 – $7,850; September 27 to December 31, 1996 – $Nil). Rental expense, including operating costs, paid to IBM was $8,790 for the period from January 1, 1996 to October 22, 1996.

7. INTANGIBLE ASSETS:

	Cost	Accumulated Amortization	Net Book Value
1997			
Goodwill	$ 208,107	$ 10,583	$ 197,524
Other intangible assets	71,260	1,485	69,775
Intellectual property	89,993	5,028	84,965
	$ 369,360	$ 17,096	$ 352,264

	Cost	Accumulated Amortization	Net Book Value
1998			
Goodwill	$ 287,619	$ 33,427	$ 254,192
Other intangible assets	72,263	9,221	63,042
Intellectual property	77,094	19,820	57,274
	$ 436,976	$ 62,468	$ 374,508

Other intangible assets represents the excess of cost over the fair value of tangible assets acquired in facility acquisitions.

The intellectual property primarily represents the cost of certain non-patented intellectual property and process know-how.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of U.S. dollars, except per share amounts)

8. OTHER ASSETS:

		1997		1998
Deferred financing costs net of accumulated amortization of $1,931 (1997 – $2,604)	$	15,650	$	**7,170**
Deferred pension		17,289		**20,452**
Deferred income taxes		5,027		**33,383**
Other		1,133		**3,061**
	$	39,099	$	**64,066**

9. LONG-TERM DEBT:

		1997		1998
Global, unsecured, revolving credit facility due 2003 (a)	$	–	$	**–**
Revolving loans (b)		100,762		**–**
Senior Subordinated Notes due 2006 (c)		200,000		**130,000**
Term loans (d)		154,625		**957**
Inventory and accounts receivable financing facilities (e)		57,259		**–**
Other		6,279		**4,847**
		518,925		**135,804**
Less current portion		14,961		**2,321**
	$	503,964	$	**133,483**

(a) Concurrent with the initial public offering on July 7, 1998, the Company entered into a global, unsecured, revolving credit facility providing up to $250,000 of borrowings. The credit facility permits the Company and certain designated subsidiaries to borrow funds directly for general corporate purposes (including acquisitions). The facility bears interest at LIBOR plus a margin and is repayable in July 2003. The weighted average interest rate on this facility during the period was 6.1%. There were no outstanding borrowings on this facility at December 31, 1998.

(b) During 1997 and for the period from January 1, 1998 to July 7, 1998 ("the period"), the Company had the following revolving credit facilities outstanding, which were repaid and cancelled on July 7, 1998 with proceeds from the initial public offering:

(i) A wholly-owned subsidiary had a credit agreement with a consortium of lenders to provide up to $200,000 of revolving loans. Amounts outstanding under this facility bore interest at LIBOR plus a margin. Outstanding borrowings as at December 31, 1997 were $76,000. The weighted average interest rate on this loan during the period was 8.3% (1997 – 8.7%) and the rate at December 31, 1997 was 8.7%.

(ii) A wholly-owned subsidiary had a credit agreement providing for $103,523 (£64,500) of revolving loans. Outstanding borrowings as at December 31, 1997 were $24,762 (£15,000). Amounts outstanding under this facility bore interest at LIBOR plus a margin. The weighted average interest rate on the facility during the period was 9.6% (1997 – 10.1%) and the rate at December 31, 1997 was 10.1%.

(c) The Senior Subordinated Notes bear interest at 10.5%, are unsecured and are subordinated to the payment of all senior debt of the Company. The Senior Subordinated Notes may be redeemed beginning in 2002 at various premiums above face value. Concurrent with the initial public offering on July 7, 1998, the Company assumed all of the Senior Subordinated Notes in connection with the amalgamation with and subsequent dissolution of a wholly-owned subsidiary. In August 1998, the Company redeemed 35% of the aggregate principal amount of the Senior Subordinated Notes originally issued with proceeds from the initial public offering, at 110.5% of the principal amount.

(d) During 1997 and for the period from January 1, 1998 to July 7, 1998 ("the period"), the Company had the following term facilities outstanding, which were repaid and cancelled on July 7, 1998 with proceeds from the initial public offering:

(i) A wholly-owned subsidiary had a credit agreement with a consortium of lenders to provide up to $125,000 of term loans. Amounts outstanding under this facility bore interest at LIBOR plus a margin. Outstanding borrowings as at December 31, 1997 were $119,833. The weighted average interest rate on the facility during the period was 8.6% (1997 – 8.7%) and the rate at December 31, 1997 was 8.5%.

(ii) A wholly-owned subsidiary had unsecured loan notes due 2003 which bore interest at 6% per annum and were subordinated to the payment of specified senior debt. Outstanding borrowings as at December 31, 1997 were $20,635 (£12,500). The weighted average interest rate on these notes during the period was 6.0% (1997 – 6.0%) and the rate at December 31, 1997 was 6.0%.

(iii) A wholly-owned subsidiary had a credit agreement providing for up to $14,300 (Cdn$20,000) in term loans. Outstanding borrowings as at December 31, 1997 were $14,157 (Cdn$20,300). Amounts outstanding under this facility bore interest at LIBOR plus a margin. The weighted average interest

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of U.S. dollars, except per share amounts)

rate on this loan during the period was 7.5% (1997 – 5.3%) and the rate at December 31, 1997 was 9.7%.

(e) During 1997 and for the period from January 1, 1998 to July 7, 1998 ("the period"), the Company had the following inventory and accounts receivable financing facilities outstanding which were repaid and cancelled from proceeds of the initial public offering:

(i) A wholly-owned subsidiary had a five year facility with a financial institution to purchase up to $125,000 of notes secured by accounts receivable and inventories. As at December 31, 1997, $16,509 was outstanding. The notes bore interest at the financial institution's cost of funds plus a margin. The weighted average interest rate during the period was 6.3% (1997 – 6.3%) and the rate at December 31, 1997 was 6.3%.

(ii) A wholly-owned subsidiary had an agreement with a major customer to provide financing for certain inventories. Under an agreement where certain costs were borne by the customer, no interest was payable on advances under this agreement, except for advances in excess of certain limits which bore interest at LIBOR. As at December 31, 1997 the present value of the advances, discounted at 8.5%, was $40,750.

As at December 31, 1998, principal repayments due within each of the next five years on all long-term debt are as follows:

1999	$ 2,321
2000	2,101
2001	671
2002	232
2003	176
Thereafter	130,303

The global, unsecured, revolving credit facility established in July 1998 has restrictive covenants relating to debt incurrence and sale of assets and also contains financial covenants that indirectly restrict the Company's ability to pay dividends. The Company's Senior Subordinated Notes due 2006 include a covenant restricting the Company's ability to pay dividends.

10. CAPITAL STOCK:

(a) Authorized:

An unlimited number of subordinate voting shares, which entitle the holder to one vote per share, and an unlimited number of multiple voting shares, which entitle the holder to twenty-five votes per share. Except as otherwise required by law, the subordinate voting shares and multiple voting shares vote together as a single class on all matters submitted to a vote of shareholders, including the election of directors. The holders of the subordinate voting shares and multiple voting shares are entitled to share rateably, as a single class, in any dividends declared subject to any preferential rights of any outstanding preferred shares in respect of the payment of dividends. Each multiple voting share is convertible at any time at the option of the holder thereof into one subordinate voting share.

The Company completed a capital reorganization in July 1998 (the "Reorganization") in connection with its initial public offering. The Company's authorized capital stock prior to the Reorganization was:

(i) An unlimited number of Class A voting shares, which were entitled to elect 40% of Celestica's directors and to receive dividends as and when declared. These shares were converted into subordinate voting shares and multiple voting shares in the Reorganization;

(ii) 100 Class B voting shares, which were entitled to elect 60% of Celestica's directors and were not entitled to receive any dividends. These shares were converted into multiple voting shares in the Reorganization;

(iii) An unlimited number of Class C non-voting shares, issuable in series, each series to be limited to a maximum of 10,000,000 shares. At the option of the holder, Class C shares were convertible into Class A shares based on a prescribed formula. These shares were not entitled to receive dividends. These shares were converted into subordinate and multiple voting shares in the Reorganization; and

(iv) An unlimited number of non-voting Preferred shares, Series 1, issuable in series. The Preferred shares were convertible into Class A shares based on a prescribed formula contingent upon the occurrence of certain future events. The Preferred shares were entitled to receive dividends as and when declared. These shares were repurchased by Celestica in July 1998 for $2,046, of which $260 was satisfied by the issuance of subordinate voting shares at an ascribed value based on the initial public offering price of the subordinate voting shares, with the remainder being settled in cash.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of U.S. dollars, except per share amounts)

(b) Issued and outstanding:

Number of Shares	Subordinate Voting Shares	Multiple Voting Shares	Shares to be issued	Class A Shares	Class B Shares	Class C Shares	Preferred Shares
Balance December 31, 1996	–	–	–	20,000,000	100	10,000,000	–
Issued for cash in January 1997 (i)	–	–	–	14,363,200	–	–	–
Issued as consideration for acquisitions (ii)	–	–	–	287,331	–	–	1,000,000
Net issuances under employee share purchase and option plans (iii)	–	–	–	1,949,200	–	–	–
Balance December 31, 1997	–	–	–	36,599,731	100	10,000,000	1,000,000
Reorganization (iv)	23,734,550	19,532,975	–	(37,346,195)	(100)	(10,000,000)	(1,000,000)
Initial public offering, net of issue costs (v)	23,690,000	–	–	–	–	–	–
Issued as consideration for acquisitions (vi)	7,583,574	–	753,674	137,142	–	–	–
Net issuances under employee share purchase and option plans (vii)	(1,480)	–	–	606,420	–	–	–
Other share issuances (viii)	–	–	–	2,902	–	–	–
Balance December 31, 1998	**55,006,644**	**19,532,975**	**753,674**	**–**	**–**	**–**	**–**

Amount	Subordinate Voting Shares	Multiple Voting Shares	Shares to be issued	Class A Shares	Class B Shares	Class C Shares	Preferred Shares	Total Amount
Balance December 31, 1996	$ –	$ –	$ –	$ 200,000	$ 1	$ 10	$ –	$ 200,011
Issued for cash in January 1997 (i)	–	–	–	143,632	–	–	–	143,632
Issued as consideration for acquisitions (ii)	–	–	–	4,281	–	–	1	4,282
Net issuances under employee share purchase and option plans (iii)	–	–	–	19,492	–	–	–	19,492
Balance December 31, 1997	–	–	–	367,405	1	10	1	367,417
Reorganization (iv)	240,421	138,811	–	(378,960)	(1)	(10)	(1)	260
Initial public offering, net of issue costs (v)	399,406	–	–	–	–	–	–	399,406
Issued as consideration for acquisitions (vi)	123,991	–	9,460	2,400	–	–	–	135,851
Net issuances under employee share purchase and option plans(vii)	(15)	–	–	9,111	–	–	–	9,096
Other share issuances (viii)	–	–	–	44	–	–	–	44
Balance December 31, 1998	**$ 763,803**	**$ 138,811**	**$ 9,460**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 912,074**

1997 Capital transactions:

(i) In January 1997, the Company issued 14,363,200 Class A shares from treasury for cash of $143,632.

(ii) In October 1997, the Company issued 287,331 Class A shares from treasury in connection with the purchase of Ascent at an ascribed value of $4,281. A further 1,000,000 Preferred shares, Series I, were issued at an ascribed value of $1. These Preferred shares, Series I, were convertible into a maximum of 194,389 Class A shares depending upon the occurrence of certain events and were redeemable at $0.0001 per share.

(iii) During 1997, pursuant to Employee Share Purchase and Option Plans, the Company issued 1,956,320 Class A shares from treasury for cash of $19,563 and redeemed 7,120 Class A shares for cash of $71.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of U.S. dollars, except per share amounts)

1998 Capital transactions:

(iv) Prior to the completion of its initial public offering, the Company effected the following share exchanges as part of the Reorganization:

- 23,631,299 Class A Shares were exchanged for 23,631,299 subordinate voting shares.
- 13,714,896 Class A Shares were exchanged for 13,714,896 multiple voting shares.
- 100 Class B Shares were exchanged for 100 multiple voting shares.
- 9,850,000 Class C Shares were exchanged for 5,817,979 multiple voting shares.
- 150,000 Class C Shares were exchanged for 88,600 subordinate voting shares.
- 1,000,000 Preferred shares, Series I, were repurchased by Celestica for $2,046, of which $260 was satisfied by the issuance of 14,651 subordinate voting shares based on the initial public offering price of the subordinate voting shares.

(v) In July 1998, the Company issued 23,690,000 subordinate voting shares in its initial public offering for gross cash proceeds of $414,575 and incurred $15,169 in share issue costs, net of tax.

(vi) In May 1998, the Company issued 137,142 Class A shares (which were subsequently exchanged for subordinate voting shares) as partial consideration for the acquisition of Analytic Design, Inc. at an ascribed value of $2,400 (see note 3).

In December 1998, the Company issued 7,583,574 subordinate voting shares to former stockholders of IMS in connection with the merger with IMS at an ascribed value of $123,991 (see note 3). The Company has reserved 753,674 shares at an ascribed value of $9,460 for IMS options with an exercise price below fair value at the date of the merger.

(vii) During 1998, pursuant to employee share purchase and option plans, the Company issued 609,420 Class A shares (which were subsequently exchanged for subordinate voting shares) from treasury for cash of $9,141, issued 6,270 subordinate voting shares as a result of the exercise of options for cash of $63, redeemed 3,000 Class A shares for cash of $30 and redeemed 7,750 subordinate voting shares for cash of $78.

(viii) In February 1998, the Company issued 2,902 Class A Shares (which were subsequently exchanged for subordinate voting shares) from treasury for cash of $44.

(c) Stock option plans

(i) Long-Term Incentive Plan ("LTIP")

The Company established the LTIP prior to the closing of its initial public offering. Under this plan, the Company may grant stock options, performance shares, performance share units and stock appreciation rights to directors, permanent employees and consultants ("eligible participants") of the Company, its subsidiaries and other companies or partnerships in which the Company has a significant investment. Under the LTIP, up to 7,500,000 subordinate voting shares may be issued from treasury. Options are granted at prices equal to the market value at the date of the grant and are exercisable during a period not to exceed ten years from such date.

(ii) Employee Share Purchase and Option Plans ("ESPO")

The Company has ESPO plans that were available to certain of its employees and executives. As a result of the establishment of the LTIP, no further options or shares may be issued under the ESPO plans. Pursuant to the ESPO plans, employees and executives of the Company were offered the opportunity to purchase, at prices equal to market value, subordinate voting shares and, in connection with such purchase, receive options to acquire an additional number of subordinate voting shares based on the number of subordinate voting shares acquired by them under the ESPO plans. The exercise price for the options is equal to the price per share paid for the corresponding subordinate voting shares acquired under the ESPO plans.

Stock option transactions were as follows:

Number of options	Shares	Weighted Average Exercise Price
Outstanding at January 1, 1997	–	–
Granted	3,134,416	$ 10.00
Exercised	–	–
Cancelled	(11,408)	$ 10.00
Outstanding at December 31, 1997	3,123,008	$ 10.00
Granted	991,373	$ 16.12
Exercised	(6,270)	$ 10.00
Cancelled	(17,224)	$ 10.00
Assumed	1,673,040	$ 9.21
Outstanding at December 31, 1998	**5,763,927**	**$ 10.82**
Cash consideration received on options exercised		$ 63
Shares reserved for issuance upon exercise of stock options or awards	12,821,033	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of U.S. dollars, except per share amounts)

The following options were outstanding as at December 31, 1998:

Plan	Outstanding Options		Price	Exercisable Options		Price	Remaining Life (years)
ESPO	3,099,514	$	10.00	828,210	$	10.00	4
ESPO	548,478	$	15.00	54,848	$	15.00	4
LTIP	432,895	$	17.50	19,130	$	17.50	5
LTIP	10,000	$	18.19	–		–	5
Other	1,673,040	$	9.21	937,940	$	9.21	8
	5,763,927			1,840,128			

11. RESEARCH AND DEVELOPMENT COSTS:

Total research and development costs for 1998 were $19,790 (1997 – $15,076; September 27, 1996 to December 31, 1996 – $2,757; January 1, 1996 to October 22, 1996 – $11,093).

12. INTEGRATION COSTS RELATED TO ACQUISITIONS:

The Company incurred costs of $8,123 in 1998 (1997 – $13,292) relating to the establishment of business processes, infrastructure and information systems for operations acquired in 1998 and 1997. None of the integration costs incurred related to existing operations.

13. OTHER CHARGES:

	Year ended December 31, 1997	1998
Write down of intellectual property and goodwill (a)	$ –	$ **41,813**
Deferred financing costs and debt redemption fees (b)	–	**17,830**
Credit loss (c)	13,900	**–**
Other	–	**5,100**
	$ 13,900	$ **64,743**

(a) During 1998, the Company completed a review of the recoverability of the carrying value of its intellectual property. As a result of this review, the Company concluded that certain processes and technologies acquired from IBM in 1996 were no longer in use and the future benefit of other technologies was less certain than was previously the case. Accordingly, the Company's results of operations for 1998 included a non-cash charge of $35,000 to reflect a write down of the carrying value of this intellectual property.

As a result of the merger with IMS, certain goodwill in the amount of $6,813 became impaired and was written off in 1998.

(b) In 1998, the Company incurred $17,830 in charges relating to the write-off of deferred financing costs and debt redemption fees associated with the prepayment of debt from the proceeds of the initial public offering. These charges would be recorded as an extraordinary loss under United States generally accepted accounting principles.

(c) In 1997, the Company incurred a credit loss totalling $13,900 relating to a customer which filed for bankruptcy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of U.S. dollars, except per share amounts)

14. INCOME TAXES:

	Predecessor Company	Celestica Inc.		
	Period from January 1, 1996 to October 22, 1996	Period from September 27, 1996 to December 31, 1996	Year ended December 31, 1997	1998
Income (loss) before tax:				
Canadian operations	$ 46,197	$ 7,647	$ 23,334	$ 209
Foreign operations	–	–	(28,067)	(50,726)
	$ 46,197	$ 7,647	$ (4,733)	$ (50,517)
Current income tax expense:				
Canadian operations	$ 19,965	$ 2,125	$ 5,903	$ 9,969
Foreign operations	–	–	761	5,078
	$ 19,965	$ 2,125	$ 6,664	$ 15,047
Deferred income tax expense (recovery):				
Canadian operations	$ 366	$ 2,350	$ (3,237)	$ (10,490)
Foreign operations	–	–	(1,241)	(6,603)
	$ 366	$ 2,350	$ (4,478)	$ (17,093)

The overall income tax provision differs from the provision computed at the statutory rate as follows:

	Predecessor Company	Celestica Inc.		
	Period from January 1, 1996 to October 22, 1996	Period from September 27, 1996 to December 31, 1996	Year ended December 31, 1997	1998
Combined Canadian federal and provincial income tax rate	44.6%	44.6%	44.6%	44.6%
Income taxes (recovery) based on earnings (loss) before income taxes at statutory rates	$ 20,604	$ 3,411	$ (2,111)	$ (22,530)
Increase (decrease) resulting from:				
Manufacturing and processing deduction	(4,112)	(650)	204	1,694
Foreign income taxed at lower rates	–	–	–	(4,638)
Tax arising on foreign exchange translation	3,095	1,064	5,137	1,622
Amortization of non-deductible costs related to acquisitions	–	543	3,171	11,930
Amortization of non-deductible portion of intangible assets	–	–	341	5,106
Non-taxable income	–	–	(5,146)	–
Large corporations tax	–	–	664	408
Other	744	107	(74)	4,362
Income tax expense	$ 20,331	$ 4,475	$ 2,186	$ (2,046)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of U.S. dollars, except per share amounts)

Deferred income taxes are provided for temporary differences between income tax and financial statement recognition of revenues and expenses. Deferred tax assets and liabilities are comprised of the following:

		1997		1998
Deferred tax assets:				
Income tax effect of net operating losses carried forward	$	12,874	$	9,266
Accounting provisions not currently deductible		8,133		11,274
Capital, intangible and other assets		–		15,825
Share issue costs		–		9,450
Other		2,265		5,922
Total deferred tax assets		23,272		51,737
Deferred tax liabilities:				
Capital, intangible and other assets		(689)		–
Deferred pension asset		(6,063)		(6,894)
Other		(2,819)		(4,260)
Total deferred tax liabilities		(9,571)		(11,154)
Deferred income tax asset, net	$	13,701	$	40,583

15. RELATED PARTY TRANSACTIONS:

In 1998, the Company expensed acquisition and management related fees of $2,020 (1997 – $2,000; September 27 to December 31, 1996 – $Nil) and capitalized acquisition related fees of $2,000 (1997 – $3,781; September 27, 1996 to December 31, 1996 – $10,389; January 1, 1996 to October 22, 1996 – $Nil) charged by its parent company. Management believes that the fees charged were reasonable in relation to the services provided.

For the period January 1 to October 22, 1996 over 80% of the Predecessor Company's revenue was to IBM affiliates at negotiated prices. The Predecessor Company also made royalty payments to IBM affiliates based on revenue to third parties.

16. PENSION PLANS:

The Company provides various pension plans for its employees. Certain employees participate in defined benefit plans; all other employees participate in defined contribution plans.

The following information is provided with respect to the defined contribution plans:

	Predecessor Company		Celestica Inc.				
		Period from January 1, 1996 to October 22, 1996		Period from September 27, 1996 to December 31, 1996		Year ended December 31, 1997	1998
Period cost	$	779	$	242	$	4,367	$ 5,685

For the defined benefit plans, actuarial estimates are based on projections of employees' compensation levels at the time of retirement. Maximum retirement benefits are based upon the employees' best three consecutive years' earnings. The Company has funded the plans over the past three years based on actuarial calculations to maintain the plans on a fully funded basis. The most recent actuarial valuations were completed as at April 1997 and August 1997. The estimated present value of accrued pension benefits and the estimated market value of the net assets available to provide for these benefits at December 31, 1997 and 1998 are as follows:

		1997		1998
Pension fund assets, at fair value	$	128,784	$	151,300
Projected benefit obligations		104,453		125,695
Excess of plan assets over projected benefit obligations	$	24,331	$	25,605
Unrecognized net (gain) loss from past experience and effects of changes in assumptions		(6,748)		(2,782)
Foreign currency exchange rate changes		(294)		(2,371)
Prepaid pension amount	$	17,289	$	20,452

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of U.S. dollars, except per share amounts)

The Company has made contributions in excess of the required contributions; these excess contributions have been included in the deferred pension amount on the consolidated balance sheets.

Pension fund assets consist primarily of fixed income and equity securities, valued at market value. The following information is provided on pension fund assets:

	1997	1998
Opening pension fund assets	$ 110,362	$ 128,784
Actual return on plan assets	13,715	14,194
Foreign currency exchange rate changes	(2,623)	485
Contributions by employees	1,271	1,676
Contributions by employer	6,622	6,923
Benefits paid	(563)	(762)
	$ 128,784	$ 151,300
Vested benefit obligations	$ 87,531	$ 108,197
Accumulated benefit obligations	$ 90,575	$ 111,286

Projected benefit obligations are outlined below:

	1997	1998
Opening projected benefit obligations	$ 90,300	$ 104,453
Service cost	4,829	5,659
Interest cost	6,518	7,467
Benefits paid	(645)	(1,343)
Contributions by employees	1,271	1,676
Changes in assumptions	–	10,871
Foreign currency exchange rate changes	2,180	(3,088)
	$ 104,453	$ 125,695

Net pension cost is outlined below:

	Predecessor Company	Celestica Inc.		
	Period from January 1, 1996 to October 22, 1996	Period from September 27, 1996 to December 31, 1996	Year ended December 31, 1997	1998
Pension cost:				
Service cost – benefits earned	$ 1,020	$ 332	$ 4,829	$ 5,659
Interest cost on projected benefit obligations	2,018	563	6,518	7,467
Actual return on plan assets	(6,526)	(895)	(13,715)	(14,194)
Net amortization and deferral	3,169	–	5,316	3,994
	$ (319)	$ –	$ 2,948	$ 2,926
Actuarial assumptions:				
Weighted average discount rate for projected benefit obligations	8.25%	8.25%	7.25%	6.50%
Weighted average rate of compensation increase	4.25%	4.25%	4.00%	4.00%
Weighted average expected long-term rate of return on plan assets	9.00%	9.00%	7.75%	7.50%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of U.S. dollars, except per share amounts)

17. NON-PENSION, POST-RETIREMENT BENEFITS:

The Company accrues the expected costs of providing non-pension, post-retirement benefits during the periods in which the employees render service. Long-term inflation was assumed to be a blended rate of 5.1% (1997 – 5.25%) and the discount rate used to calculate the obligation was 6.75% (1997 – 8.5%). Non-pension, post-retirement benefits are funded as paid. The net post-retirement benefit expense was $2,030 for the year ended December 31, 1998 (year ended December 31, 1997 – $600; September 27 to December 31, 1996 – $77; January 1, 1996 – October 22, 1996 – $339). The accumulated non-pension, post-retirement benefit obligations as at December 31, 1998 were approximately $6,347 (1997 – $4,245; 1996 – $3,797).

18. FINANCIAL INSTRUMENTS:

Fair values:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

(a) The carrying amounts of cash, short-term investments, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments.

(b) The fair value of the Company's long-term debt, including the current portion thereof, is estimated based on the current trading value, where available, or with reference to similarly traded instruments with similar terms.

(c) The fair values of foreign currency contract obligations are estimated by obtaining quotes from brokers.

(d) The fair values of letters of credit are based on fees currently charged for similar agreements.

The carrying amounts and fair values of the Company's financial instruments, where there are differences at December 31, 1997 and 1998, are as follows:

	As at December 31,			
	1997	1997	**1998**	**1998**
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Senior Subordinated Notes and other long-term debt	$ 220,635	$ 230,735	**$ 130,000**	**$ 140,660**
Foreign currency contracts	–	(6,309)	**–**	**(10,159)**

Other disclosures:

(a) The Company has entered into foreign currency contracts to hedge foreign currency risk. These financial instruments include, to varying degrees, elements of market, credit and exchange risk in excess of amounts recognized in the balance sheets. The Company does not require collateral or other security to support financial instruments with credit risk. As at December 31, 1998, the Company had outstanding foreign exchange contracts to sell $163,875 in exchange for Canadian dollars over a period of 13 months at a weighted average exchange rate of U.S. $0.70 and British pounds sterling over a period of 3 months at a weighted average exchange rate of U.S. $1.67. At December 31, 1998, these contracts had a fair value liability of $10,159 (1997 – $6,309).

(b) The Company is a turnkey manufacturer of sophisticated electronics for original equipment manufacturers engaged in the electronics manufacturing industry. Financial instruments that potentially subject the Company to concentrations of credit risk are primarily accounts receivable and cash equivalents. The Company performs ongoing credit evaluations of its customers' financial conditions and, generally, requires no collateral from its customers. The Company carries third party credit insurance with respect to accounts receivable related to certain of its business operations. The Company maintains cash and cash equivalents in high quality short-term investments or on deposit with major financial institutions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of U.S. dollars, except per share amounts)

19. COMMITMENTS:

The Company has operating leases and licence commitments that require future payments as follows:

	Operating Leases	Licence Commitments	Total
1999	$ 20,123	$ 6,000	$ 26,123
2000	9,143	7,200	16,343
2001	5,803	7,200	13,003
2002	3,640	–	3,640
2003	3,678	–	3,678
and thereafter	12,037	–	12,037

20. CONTINGENCIES:

Contingent liabilities in the form of letters of credit and guarantees, including guarantees of employee share purchase loans, amounted to $19,668 at December 31, 1998 (1997 – $39,087).

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect Celestica's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting Celestica, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

21. SIGNIFICANT CUSTOMERS:

During 1998, three customers individually comprised 27%, 19% and 11% of total revenue. At December 31, 1998, these customers represented 16%, 14% and 12%, respectively, of the Company's accounts receivable.

During 1997, three customers individually comprised 27%, 13% and 11% of total revenue. At December 31, 1997, these customers represented 17%, 3% and 5%, respectively, of the Company's accounts receivable.

During the period from September 27, 1996 to December 31, 1996, a single customer represented 62% of total revenue; no other customer represented 10% or more of total revenue during this period. At December 31, 1996, this customer represented 48% of the Company's accounts receivable.

22. SEGMENTED INFORMATION:

The Company's operations fall into one dominant industry segment, the electronics manufacturing services industry. The Company manages its operations, and accordingly determines its operating segments, on a geographic basis. The performance of geographic operating segments is monitored based on EBIAT (earnings before interest, amortization of intangible assets, income taxes, integration costs related to acquisitions and other charges). The Company monitors enterprise-wide performance based on adjusted net earnings, which is calculated as net earnings (loss) before amortization of intangible assets, integration costs related to acquisitions and other charges, net of related taxes. Intercompany transactions are reflected at market value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of U.S. dollars, except per share amounts)

The following is a breakdown of: revenue; EBIAT, adjusted net earnings (which is after income taxes); total assets; intangible assets; capital assets; and capital expenditures by operating segment:

	Year ended December 31, 1997	1998
Revenue		
Canada	$ 1,274,694	**$ 1,555,592**
United States	269,197	**944,324**
Europe	462,743	**749,284**
	$ 2,006,634	**$ 3,249,200**
EBIAT		
North America	$ 60,377	**$ 75,058**
Europe	10,975	**24,912**
	71,352	**99,970**
Interest, net	(33,633)	**(32,249)**
Amortization of intangible assets	(15,260)	**(45,372)**
Integration costs related to acquisitions	(13,292)	**(8,123)**
Other charges	(13,900)	**(64,743)**
Loss before income taxes	$ (4,733)	**$ (50,517)**
Adjusted net earnings	$ 23,265	**$ 45,372**
Capital expenditures		
North America	$ 23,888	**$ 39,118**
Europe	8,201	**26,652**
	$ 32,089	**$ 65,770**

	As at December 31, 1997	1998
Total assets		
North America	$ 1,151,010	**$ 909,705**
Europe	196,297	**554,625**
Asia	–	**172,095**
	$ 1,347,307	**$ 1,636,425**
Intangible assets		
North America	$ 318,855	**$ 249,766**
Europe	33,409	**32,424**
Asia	–	**92,318**
	$ 352,264	**$ 374,508**
Capital assets		
North America	$ 95,497	**$ 126,256**
Europe	28,745	**53,973**
Asia	–	**34,697**
	$ 124,242	**$ 214,926**

In 1996 all of the Company's operations operated in one geographic segment, being Canada.

23. SUBSEQUENT EVENT:

The Company has filed a registration statement on Form F-1 with the U.S. Securities and Exchange Commission and a prospectus with the securities commission or similar regulatory authority in each of the Canadian provinces in connection with an offering of subordinate voting shares. The net proceeds of this offering of approximately $218,200 will be used by the Company for capital expenditures, working capital and general corporate purposes, which may include acquisitions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of U.S. dollars, except per share amounts)

24. CANADIAN AND UNITED STATES ACCOUNTING POLICY DIFFERENCES:

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied in Canada. The significant differences between Canadian and United States GAAP and their effect on the consolidated financial statements of the Company are described below:

Consolidated statements of earnings (loss):

The following table reconciles net earnings (loss) for the period as reported in the accompanying consolidated statements of earnings (loss) to net earnings (loss) that would have been reported had the consolidated financial statements been prepared in accordance with United States GAAP:

	Predecessor Company	Celestica Inc.		
	Period from January 1, 1996 to October 22, 1996	Period from September 27, 1996 to December 31, 1996	Year ended December 31, 1997	**1998**
Net earnings (loss) for the period in accordance with Canadian GAAP	$ 25,866	$ 3,172	$ (6,919)	**$ (48,471)**
Deferred income taxes	(11)	(27)	–	**–**
Compensation expense (a) (b)	–	–	–	**(6,246)**
Net earnings (loss) for the period in accordance with United States GAAP	$ 25,855	$ 3,145	$ (6,919)	**$ (54,717)**
Basic earnings (loss) per share	$ 25,855	$ 0.16	$ (0.20)	**$ (1.06)**
Net earnings (loss) for the period is comprised of the following:				
Net earnings (loss) for the period	$ 25,855	$ 3,145	$ (6,919)	**$ (54,717)**
Extraordinary loss on debt redemption, net of income taxes (note 13)	–	–	–	**14,367**
Net earnings (loss) before extraordinary loss	$ 25,855	$ 3,145	$ (6,919)	**$ (40,350)**
Basic earnings (loss) per share before extraordinary loss	$ 25,855	$ 0.16	$ (0.20)	**$ (0.78)**

(a) In 1998, the Company amended the vesting provisions of 3,117,945 employee stock options issued in 1997 and 1998. Under the previous vesting provisions, such options vested based on the achievement of earnings targets. A portion of these options now vest over a specified time period and the balance vested on completion of the initial public offering in 1998. Under United States GAAP, this amendment required a new measurement date for purposes of accounting for compensation expense, resulting in a charge equal to the aggregate difference between the fair value of the underlying subordinate voting shares at the date of the amendment and the exercise price for such options. As a result, under United States GAAP, the Company will record a $15,600 non-cash stock compensation charge to be reflected in earnings over the vesting period as follows: 1998 – $4,200; 1999 – $1,900; 2000 – $2,500; 2001 – $3,200; 2002 – $3,800. No similar charge is required to be recorded by the Company under Canadian GAAP.

(b) Under United States GAAP, the contingent consideration of $2,046 associated with the final settlement of the earn-out provision related to the Ascent acquisition was recorded as compensation expense. Under Canadian GAAP, this contingent consideration has been recorded as goodwill.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of U.S. dollars, except per share amounts)

Consolidated statements of changes in financial position:

(a) Supplemental disclosure of depreciation and amortization expense is as follows:

	Predecessor Company	Celestica Inc.		
	Period from January 1, 1996 to October 22, 1996	Period from September 27, 1996 to December 31, 1996	Year ended December 31, 1997	**1998**
Depreciation of capital assets	$ 8,778	$ 2,019	$ 19,223	**$ 39,631**
Amortization of goodwill	–	1,211	9,947	**22,844**
Amortization of intellectual property	–	625	4,403	**14,792**
Amortization of other intangible assets	–	–	910	**7,736**
Amortization of deferred financing costs	–	404	2,604	**1,932**
	$ 8,778	$ 4,259	$ 37,087	**$ 86,935**

Other disclosures:

(a) Stock based compensation:

Beginning in 1996, United States GAAP encourages, but does not require, companies to record compensation costs for stock option plans at fair value. The Company has chosen to continue to account for stock options using the intrinsic value method prescribed by existing accounting pronouncements in effect in the United States. However, the new United States accounting pronouncement does require the disclosure of pro forma net loss and loss per share information as if the Company had accounted for its employee stock options issued in 1998 and 1997 under the fair value method. Accordingly, the fair value of the options issued was determined using the Black-Scholes option pricing model with the following assumptions for 1998 and 1997: risk-free rate of 5% (1997 – 4%), dividend yield of 0%, a volatility factor of the expected market price of the Company's shares of 50% (1997 – 0%), and a weighted-average expected life of the options in 1998 and 1997 of five years. The weighted-average grant date fair values of options issued in 1998 was $8.60 per share (1997 – $11.78 per share). For purposes of pro forma disclosures, the estimated fair value of the options is amortized to income over the vesting period. For the year ended December 31, 1998, the Company's United States GAAP pro forma net loss is $61,699 and basic loss per share is $1.20 (1997 – $9,316 and $0.27 per share).

(b) Foreign currencies:

United States GAAP requires the disclosure of the functional currency of each significant operating subsidiary while no such disclosure is required under Canadian GAAP. The functional currency of all the Company's significant subsidiaries is the United States dollar with the exception of Celestica U.K. whose functional currency is the British pound sterling. At December 31, 1997 and 1998, no foreign exchange gains or losses associated with long-term monetary assets and liabilities were deferred.

(c) Comprehensive income:

As of January 1, 1998, the Company implemented SFAS No. 130 "Reporting Comprehensive Income." This pronouncement, which is solely a financial statement presentation standard, requires the Company to disclose non-owner charges included in equity but not included in net earnings. These charges include the fair value adjustment to certain cost-based investments, the foreign currency translation adjustments, and the minimum pension liability adjustment. Comprehensive earnings (losses) for the years ended December 31, 1997 and 1998 were consistent with net earnings (losses) for these periods.

(d) Other recent accounting pronouncements:

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. The Company will be required to implement SFAS No. 133 for its fiscal year ended December 31, 2000. The Company expects the adoption of SFAS No. 133 will have no material impact on its financial position, results of operations or cash flows.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use." SOP 98-1 requires that entities capitalize certain costs related to internal-use software once certain criteria have been met. The Company will be required to implement SOP 98-1 for its fiscal year ended December 31, 1999. The Company has not yet determined the impact of SOP 98-1 on its financial position, results of operations and cash flows.

In April 1998, the AICPA issued SOP 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 requires that all start-up costs related to new operations must be expensed as incurred. In addition, all start-up costs that were capitalized in the past must be written off when SOP 98-5 is adopted. The Company will be required to implement SOP 98-5 for its fiscal year ended December 31, 1999. The Company expects that the adoption of SOP 98-5 will have no material impact on its financial position, results of operations or cash flows.

SHARE INFORMATION

MARKET LISTINGS (SYMBOL: CLS)

Toronto Stock Exchange (TSE)
Montreal Exchange (ME)
New York Stock Exchange (NYSE)

SHARES OUTSTANDING

SHARES OUTSTANDING	As at December 31, 1998
Basic	74,539,619*
Fully Diluted	80,325,147

* Composed of 55,006,644 Subordinate Voting Shares and 19,532,975 Multiple Voting Shares

CLOSING PRICE OF SHARES

	As at December 31, 1998
Toronto Stock Exchange	$ 37.80 (Cdn)
Montreal Exchange	$ 37.80 (Cdn)
New York Stock Exchange	$ 24.69 (U.S.)

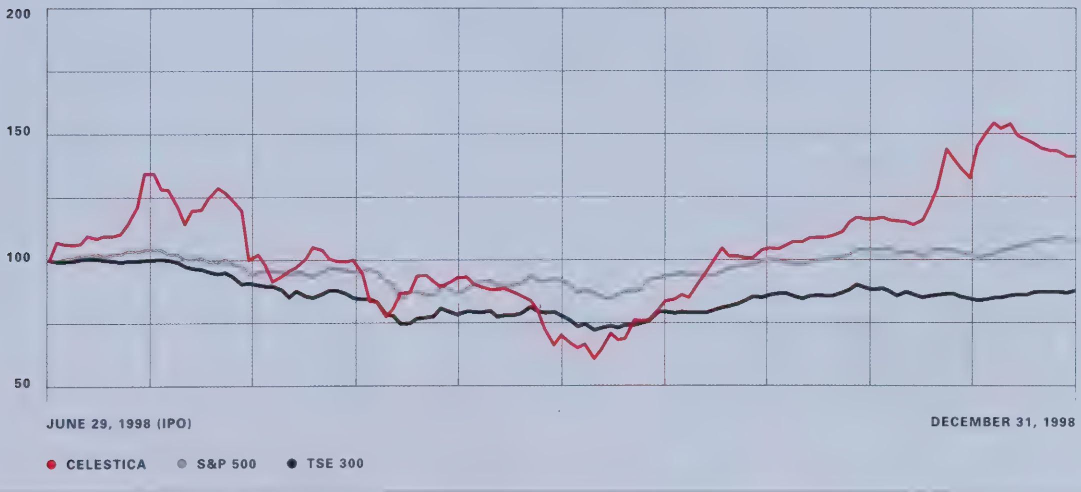
SHARE TRADING INFORMATION

(IPO price: Cdn$25.73, U.S.$17.50)	Closing Share Price High	Low	End of Quarter	Volume
TSE (Cdn$)				
1998 Third Quarter	$ 35.00	$ 19.20	$ 19.20	15,672,615
1998 Fourth Quarter	$ 41.80	$ 16.50	$ 37.80	11,374,042
ME (Cdn$)				
1998 Third Quarter	$ 34.90	$ 19.50	$ 19.50	1,032,417
1998 Fourth Quarter	$ 42.00	$ 16.50	$ 37.80	662,766
NYSE (U.S.$)				
1998 Third Quarter	$ 23.50	$ 12.69	$ 12.69	9,899,800
1998 Fourth Quarter	$ 27.00	$ 10.63	$ 24.69	9,055,800

VOLUME OF SHARES TRADED

(Trading Period: June 30, 1998 – December 31, 1998)	
Toronto Stock Exchange	32,071,259
Montreal Exchange	1,761,871
New York Stock Exchange	22,165,800

RELATIVE CLS SHARE PRICE PERFORMANCE VERSUS TSE AND S&P INDEXES



EUGENE V. POLISTUK

Eugene V. Polistuk has been the President, Chief Executive Officer and a director of Celestica since October 1996. He has been President and Chief Executive Officer of Celestica since its establishment in 1994. From the time he was appointed Plant Manager of IBM Toronto Manufacturing in 1986, Mr. Polistuk has been instrumental in charting Celestica's transformation and restructuring strategy and ensuring its successful execution. Mr. Polistuk joined IBM Canada in 1969 and, over the course of his career, has managed all key functional areas of the business. Mr. Polistuk holds a Bachelor of Applied Science degree in Electrical Engineering from the University of Toronto.

ANTHONY P. PUPPI

Anthony P. Puppi has been the Senior Vice-President, Chief Financial Officer and a director of Celestica since October 1996. He has been the Chief Financial Officer of Celestica since its establishment. He is responsible for all of Celestica's financial activities. From 1990 to 1992, he served as Controller of IBM's Bromont, Quebec facility. Mr. Puppi joined IBM Canada in 1980 and, over the course of his career, has held a number of financial management roles in a variety of functions. Mr. Puppi holds a Bachelor of Business Administration in Finance degree and a Master of Business Administration from York University in Ontario.

ROBERT L. CRANDALL

Robert L. Crandall is the former Chairman of the Board, President and Chief Executive Officer of AMR Corporation and former Chairman of the Board and Chief Executive Officer of American Airlines Inc. Mr. Crandall has been a director of Celestica since July 1998 and Chairman of the Board since February 1999. Mr. Crandall was elected a director of American Airlines Inc. in 1976, and from 1985 until May 1998 he served as Chairman of the Board, President and Chief Executive Officer of AMR Corporation. He is also a director of Halliburton Company (energy and engineering services), American Express Company and MediaOne Group (cable and wireless communications) and a former director of The SABRE Group Holdings Inc. (reservation systems). Mr. Crandall holds a Bachelor of Science degree from the University of Rhode Island and a Master of Business Administration from The Wharton School of the University of Pennsylvania.

MARK L. HILSON

Mark L. Hilson is a Vice-President of Onex and has acted as a director of Celestica since 1996. Mr. Hilson joined Onex in 1988 and was appointed Vice-President in 1993. Prior to 1988, he was an associate in the Mergers & Acquisitions Group at Merrill Lynch, Pierce, Fenner & Smith Incorporated. Mr. Hilson is also a director of Lantic Sugar Limited and Rogers Sugar Ltd. (sugar processing), Vencap Inc. (venture capital fund) and Vincor International Inc. (vintner). Mr. Hilson holds an Honours Bachelor of Business Administration (gold medallist) from Sir Wilfrid Laurier University and a Master of Business Administration (George F. Baker Scholar) from Harvard University.

RICHARD S. LOVE

Richard S. Love is a former Vice-President of Hewlett-Packard and a former general manager of the Computer Order Fulfilment and Manufacturing Group for Hewlett-Packard's Computer Systems Organization. Mr. Love has been a director of Celestica since July 1998. From 1962 until 1997, he held positions of increasing responsibility with Hewlett-Packard, becoming Vice-President in 1992. He is a director of HMT Technology Corporation (electronics manufacturing) and a former director of The Vendo Company (electronics) and the Information Technology Industry Council. Mr. Love holds a Bachelor of Science degree in Business Administration and Technology from Oregon State University and a Master of Business Administration from Fairleigh Dickenson University.

ROGER L. MARTIN

Roger L. Martin is Dean of the University of Toronto's Joseph L. Rotman School of Management and has been a director of Celestica since July 1998. Mr. Martin is a director of Monitor Company, a Cambridge, Massachusetts-based consulting firm with 1,000 employees. He joined Monitor Company in 1985, founded the firm's Toronto office in 1987 and became a member of the firm's global executive committee in 1991. Mr. Martin holds a Bachelor of Arts degree (cum laude) from Harvard College and a Master of Business Administration from Harvard University.

DIRECTORS

ANTHONY R. MELMAN

Anthony R. Melman is a Vice-President of Onex and has been a director of Celestica since 1996. Mr. Melman joined Onex as a shareholder and Vice-President in 1984. From 1977 to 1984, he was Senior Vice-President of the Canadian Imperial Bank of Commerce responsible for worldwide merchant banking, project financing, acquisitions and other specialized financing activities. Prior to emigrating to Canada in 1977, Mr. Melman had extensive merchant banking experience in South Africa and the United Kingdom. He is a director of BT Bank of Canada (banking) and a number of Onex-controlled companies. Mr. Melman holds a Bachelor of Science degree in Chemical Engineering from the University of The Witwatersrand, a Master of Business Administration (gold medallist) from Cape Town University and a Ph.D. in Finance from the University of The Witwatersrand.

GERALD W. SCHWARTZ

Gerald W. Schwartz is the Chairman of the Board, President and Chief Executive Officer of Onex and has been a director of Celestica since July 1998. Prior to founding Onex in 1983, Mr. Schwartz was a co-founder and President (in 1977) of CanWest Capital Corp., now CanWest Global Communications Corp. He is a director of Onex, SC International Services, Inc. (airline catering), Phoenix Pictures, Inc. and Alliance Atlantis Inc. (entertainment). Mr. Schwartz holds a Bachelor of Commerce degree and a Bachelor of Laws degree from the University of Manitoba, a Master of Business Administration from Harvard University and a Doctor of Laws (Hon.) from St. Francis Xavier University.

DON TAPSCOTT

Don Tapscott is Chairman of the Alliance for Converging Technologies, a think tank investigating the impact of the information highway and the new media on business, government and society. He is also President of New Paradigm Learning Corporation and has been a director of Celestica since September 1998. He has authored numerous books on the application of technology in business. Mr. Tapscott is a Forum Fellow of the World Economic Forum and in Canada in 1992 he chaired the Ontario Advisory Committee for a Telecommunications Strategy. Mr. Tapscott holds a Bachelor of Science degree in Psychology and Statistics and a Master of Education degree specializing in Research Methodology.

JOHN R. WALTER

John R. Walter is the former President and Chief Operating Officer of AT&T Corp. and has been a director of Celestica since July 1998. Mr. Walter joined AT&T Corp. in 1996. From 1969 to 1996, he held positions of increasing responsibility with R.R. Donnelley & Sons Company, becoming President in 1987 and Chief Executive Officer and Chairman of the Board in 1989. He is a director of Abbott Laboratories (pharmaceuticals), Deere & Company (equipment and financial services), Manpower, Inc. (staffing and employment services) and LaSalle Partners Incorporated (real estate services) and is a trustee of the Chicago Symphony Orchestra and Northwestern University. Mr. Walter holds a Bachelor of Science degree in business administration from Miami University of Ohio.

OFFICERS

EUGENE V. POLISTUK
President, Chief Executive Officer

ANTHONY P. PUPPI
Senior Vice-President,
Chief Financial Officer

ROBERT G. BEHLMAN
Executive Vice-President,
Celestica Asia

PAUL M. COHEN
Senior Vice-President,
Power Systems and
Celestica South America

LISA J. COLNETT
Senior Vice-President,
Global Process Management and
Chief Information Officer

ANDREW G. GORT
Senior Vice-President,
Global Supply Chain Management

ALASTAIR F. KELLY
Senior Vice-President,
Celestica Europe

IAIN S. KENNEDY
Senior Vice-President,
Corporate Mergers, Acquisitions,
and Integration

J. MARVIN MAGEE
Senior Vice-President,
Celestica Canada

DOUGLAS C. MCDOUGALL
Senior Vice-President,
Celestica U.S./Mexico

DANIEL P. SHEA
Senior Vice-President,
Chief Technology Officer

R. THOMAS TROPEA
Senior Vice-President,
Marketing and Business
Development

PETER J. BAR
Vice-President,
Corporate Controller

ELIZABETH L. DELBIANCO
Vice-President,
General Counsel and Secretary

F. GRAHAM THOURET
Vice-President,
Corporate Treasurer

CORPORATE INFORMATION

ANNUAL MEETING

The 1999 annual meeting of Celestica shareholders will be held at 10:00 a.m. Eastern Standard Time on April 27, 1999 at:
TSE Auditorium
2 First Canadian Place
The Exchange Tower
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U.S.:
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One Liberty Plaza
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OPERATIONS

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U.S.A. 95131

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U.S.A. 95054

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U.S.A. 41301

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